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CORPORATE GOVERNANCE IN THE NONPROFIT SECTOR: A GROUNDED THEORY APPROACH TO STUDYING THE TRUSTEE BOARD

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CORPORATE GOVERNANCE IN THE NONPROFIT SECTOR: A GROUNDED THEORY APPROACH TO STUDYING THE TRUSTEE BOARD

by

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DEDICATION

"No man is an Iland, intire of it selfe; every man is a peece of the Continent, a part of the maine, if a Clod bee washed away by the Sea, Europe is the lesse, as well as if a Promontorie were, as well as if a Mannor of thy friends or of thine owne were; any mans death diminishes me, because I am involved in Mankinde; And therefore never send to know for the whom the bell tolls; It tolls for thee"

(John Donne , 1624/1999, 17th Devotion).

This thesis is dedicated to all those who give of themselves selflessly for the benefit of others.

PLYMOUTH UNIVERSITY

FACULTY OF BUSINESS

ABSTRACT

PhD Thesis

Corporate Governance in the Nonprofit Sector: A Grounded Theory Approach to Studying the Trustee Board

By George Dexter

This thesis uses a constructivist grounded theory approach to investigate nonprofit corporate governance in the UK; using data obtained from participatory observations of board and associated meetings, workshops, and unstructured elite interviews. Open codes are generated and brought together as concepts, which are then iteratively compared and grouped in open categories. These categories are then reassembled using the paradigm model into five axial codes: the clash of orthodoxies; clash of motivations; regulator versus board power; clash of rationalities; and effective board duality. A dialectical approach is then used to create the core category of the 'clash of neoliberal and public service world views which exists at every level of the nonprofit sector'. This core category is analysed in terms of the subordinate contradictions: at an environmental level - regulatory power versus sector power; at board level - accountability; the SMT; board practices and rituals (professionalism, actual and symbolic authority, boards meetings as theatre, and ethical standards); the concept of challenge as an expression of power relations; and rationality and decision making; and at the individual level - motivations of directors, moral duty and social purpose, social group membership, identification, credibility and trust. The substantive theory is then situated within psychology, governance, and corporate governance theories. The contribution made by the thesis are identified as the: use of ethnography to describe the inner workings of the board; creation of a model of nonprofit corporate governance; identification of the importance of political, ideological, regulatory, and ethical contexts; and concept of power, and the senior management team as a component of the board. Further research is suggested into: (i) a comparison of corporate governance in the for-profit and nonprofit sectors; (ii) challenge within the nonprofit culture; and (iii) the SMT as a major player in governance.

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AUTHOR'S DECLARATION

At no time during the registration for the degree of Doctor of Philosophy has the author been registered for any other University award.

No part of the work submitted for this research degree forms part of any other degree either at Plymouth University or any other establishment.

The following activities were undertaken in connection with the programme of the study.

- Attended and awarded the Postgraduate Certificate in Research Methodology with distinction, 2015, Plymouth University.
- Member of the organising committee and chairman of the Plymouth University Doctoral Colloquium 2015, 2016 and 2017.
- Attended the following elements of the Research Students Skills Development Programme held at the Plymouth University. Overview of searching and accessing information resources; Introduction to qualitative research methods; The Introduction to Endnote; An introductory session in the use of NVIVO; Critical thinking; The Transfer Process; Research integrity and ethics; applying for research ethical approval.
- A paper entitled "Motivation in Nonprofit Corporate Governance: A Constructivist Grounded Theory Approach" accepted for the British Academy of Management Annual Conference September 2017.

This thesis has a word count of 79,875

Signed ……..…….. Date …….

Glossary of Terms

CQC	Care Quality Commission
CEO	Chief Executive Officer
DfE	Department for Education
DoF	Director of Finance
FRC	Financial Reporting Council
FSA	Financial Services Authority
FT	NHS Foundation Trust
HCA	Homes and Community Agency
IDA	In-Depth Assessment
MAT	Multi-Academy Trust
NED	Non-Executive Director
NHF	National Housing Federation
NHS	National Health Service
NGA	National Governors Association
NGO	Non-Governmental Organisation
OFCOM	Office of Communications (the UK Communications Regulator)
OFSTED	Office for Standards in Education
ONS	Office of National Statistics
PSM	Public Service Motivation
RSA	Regional Schools Agency
RSC	Regional Schools Commissioner
RSL	Registered Social Landlords
SMT	Senior Management Team
VFM	Value for Money

CHAPTER 1: Introduction

1.1 Background

This thesis considers the corporate governance of organisations in the regulated UK nonprofit sector. For the purposes of this thesis, the nonprofit sector is defined to comprise the: public; quasi-public; and charity sectors. Within this definition there are many sub-sectors, such as: the NHS; the state education system; and social housing. The term sub-sector is therefore used when specific reference is made to one of these.

The nonprofit sector in the UK is of major significance. It is the state's main deliverer of public services such as the NHS, the state education system, further and higher education and social housing. The cost to the UK state of funding the provision of services through the nonprofit: health; education; public order and safety; and housing and community amenities sub-sectors in 2016/17 was £262.9bn. This was 37% of its total expenditure on public services (Public Expenditure Statistical Analyses 2016, Table 4.2). In addition, services were provided through the voluntary sector at a cost of £45.5bn, of which £15.3bn came from local, national, and international governments (Keen and Audickas, 2017).

The nonprofit sector is also a major employer. Of the total UK working population of 32.1m at the end of 2017, the public and quasi-public sub-sectors employed approximately 5.3 million people, with an additional 850 thousand being employed in the voluntary sector. In addition, about 14.2 million people formally volunteered at least once a month in the voluntary sector (Benard et al., 2017; ONS, 2017).

Salamon and Anheier (1997) observe the following common features of such organisations.

(i) They are institutionally separate from government, but do however, receive significant government financial support and are structurally not part of a government department.

(ii) Any profits generated by the organisation are all reinvested in the organisation itself, to deliver its social purpose, rather than distributed to any third party.

(iii) They are self-governing, with their own internal procedures for governance and are not controlled by outside entities.

(iv) The organisations have voluntary input, even if only a volunteer board of directors, which suffices to qualify them as in some sense voluntary.

The nonprofit sector can also be defined in terms of its particular ethos, motivations, social reasoning, and the kinds of people it attracts (Reed and Howe 1999). It also differs from the for-profit sector in ways which include: basic purpose, culture, values, motivations, and the 'markets' within which it operates. The thesis investigates corporate governance in the nonprofit sector; and takes into account how these differences may cause nonprofit boards to operate in different ways to those in the private sector.

1.2 Research Questions

This research considers corporate governance in organisations in those parts of the nonprofit sector which provide services to people, principally on behalf of national and local government as commissioners. The objective of the research is to understand the way in which nonprofit boards operate within the general political, regulatory, and ethical environments which exist in the UK. This research is intended to improve the understanding of the theoretical and practical issues associated with nonprofit corporate governance by proposing a model for nonprofit corporate governance (see Figures 1 and 2) which addresses the following research issues.

i) The effects which the regulatory, political and moral environments have on nonprofit governance.

ii) The internal structure and boundaries of the black box of corporate governance, and how the black box interact with the external environment.

iii) The interaction of the trustee board with its senior management team.

iv) The board as a social group.

v) The effects which the motivations of the actors in the nonprofit sector have on corporate governance.

vi) The aspects of power, emotions and 'rationality' on board practices, and strategic and other decision making.

These questions are addressed by using a grounded theory methodology, with data obtained from participatory observations made inside the board 'black box', and theoretical sampling through interviews with chairs, chief executives and executive directors. The grounded theory methodology produces a substantive theory, which is then assessed against extant governance, corporate governance theories.

1.3 Structure of the Thesis

This thesis investigates the activities of boards as small elite social groups, motivated in ways which differ from those in the for-profit sector. To understand this dynamic, the literature on social groups is considered in Chapter 2 under the general themes of: human nature; the concepts of self and identity; and social groups. This lays the foundations for a review of governance and corporate governance theories in Chapter 3. The literature reviewed in Chapters 2 and 3 identify motivation, ethics, and rationality as important issues for corporate governance. These matters are then considered in Chapter 4 by consideration of theories concerned with: rationality; institutionalism; dialectics; and path dependency. The chapter considers the concepts of rationality, as a basis for morality and motivation; and challenges the motivations associated with the economic view of rational choice theory. It is argued that, particularly in the social context, emotions and beliefs play an important role in rational thought and action. Similarly, morality and ethics are argued to rationally impose an obligation to act

consistently according to values and beliefs. This is also linked to the consideration of the motivations assumed by various theories relating to: self-interest; utilitarian power-seeking; emotional; and morality. Dialectics, as a mode of thought, are argued to help to understand a world full of contradictions; they represent the driving force for change which is enacted through path dependency. The contradictions identified by this research are used as the basis of the development of the substantive theory.

The research methodology is set out in Chapter 5, which: first provides an explanation of the philosophical perspective based upon reality, truth and knowledge; then describes the paradigms of inquiry and associated methodologies; selects and justifies the use of a constructivist grounded theory approach; and finally considers participatory observations and interviewing methods used in this research. This approach recognizes that corporate governance operates within the historical and social context and the generally accepted theories which shape the individual's and society's views of how people should act. It is socially constructed; a social process that places emphasis on the dynamic nature of social reality (Letza et al., 2004; Letza et al., 2008).

Chapter 6 describes the iterative grounded theory processes used to collect and analyse data, and to develop a substantive theory. This chapter describes the ethnographic methods used in the data collection and coding; the generation of open codes, concepts and open categories and sub-categories. The inter-relationships between sub-categories are then considered and suggested propositions generated. Two related models of nonprofit corporate governance are then proposed, identifying five axial codes, which are analysed using the paradigm model. The core category is then identified, related to subordinate categories, and discussed. The key concepts and categories are then tested through theoretical sampling, which are consolidated and presented under the four issues of: political, regulatory and ethical environment; resulting nonprofit board structures; formal and informal power structures; and the enactment of

governance by the individual director. This consolidation is then used to provide the basis for the development of the substantive theory.

These processes then lead, in Chapter 7, to the creation of a substantive theory of nonprofit corporate governance. The nature of theory is first discussed; and then the substantive theory is presented, which is based on the core category (and dialectical principal contradiction) of 'the clash of neoliberal and public service world views which exists at every level of the nonprofit sector'. The substantive theory is then discussed in terms of the three subordinate contradictions which flow from this at the: environmental; board; and individual levels. The substantive theory is then reviewed to determine its relationships to behavioural, governance and corporate governance theories.

The contributions made by the thesis are then set out in terms of: methodology, through the application of a combination of ethnography and grounded theory; and the theoretical outcomes of that methodology. Finally, the thesis proposes three areas for further research.

CHAPTER 2: Human Nature, Identity and Social Groups

"*Group affiliations are a universal feature of human social life and group memberships are basic determinants of our social relations with others*" (Turner, 1984, p. 518).

This chapter reviews the literature concerning the motivations of individuals and groups in order to apply it to the concepts of governance.

Section One of this chapter considers the question of human nature in terms of: the social contract; and the motivational assumptions of; self-interest, altruism and egoism, trust, and conformity. These aspects of human nature enable humans to work together in groups, and implicitly or explicitly underlie governance theories. The importance of the concept of values is then considered along with their reflection into culture. Wrong (1961) observes that he "does not see how, at the level of theory, sociologists can fail to make assumptions about human nature" (p.192).

Sections Two and Three consider the concepts of self, self-identity and social identity, which act to transmit human motivational qualities into the social world. Various constructions and purposes of identity are considered, including Mead's (1934) concept of self as the relationship between an individual and a group. Section Three concludes by considering the implications of social identity theory and the idea of self-interest.

Section Four considers the concepts and theories relating to the social group as a psychological reality, which is represented by a genuine psychological process with specific behavioural effects (Turner, 1984), and is more than just a collection of individuals.

The chapter is then summarised, concluding with the view that since boards are social groups, social group theory provides a bedrock for considering corporate governance.

2.1 Human Nature

The concept of human nature is central to the understanding of humans as individuals, the ways in which they interact, and how stable organisations and states are formed. This section addresses this by a review of the literature concerning the following.

(i) Ideas about human nature

These ideas range through the innate, self-construction, psychoanalytic, and motivational. These ideas emphasise the conception of the plasticity of human nature.

(ii) The concept of self-interest.

The concept of self-interest is at the heart of much of corporate governance theory. The social contract is discussed, which emphasises the importance of rational self-interest. Smith (1776) argued that it is possible to achieve the best economic benefit for all, even when, and in fact because, individuals tend to act in their own self-interest.

(iii) Altruism and Egoism

The arguments concerning the existence and nature of altruism and egoism are considered as key elements of human nature, which are closely linked to the issue of motivation.

(iv) Trust

Trust is considered specifically for its importance in enabling society to exist and function. Thus, trust may be considered as something which is associated with the individual or as a property of social systems (Delhey and Newton, 2003). It lies at the heart of governance.

(v) Conformity

Conformity is an important motivation which provides the basis for the existence of stable groups and societies. It refers to a change in behaviour caused by another person or group, encompassing both compliance and obedience (Breckler et al., 2006).

(vi) Values

Values are "a person's internalised belief about how he or she should or ought to behave" (Meglino and Ravlin, 1998, p. 354). They are important in the exploration of the nature of self and the individual's relationship to society (Hitlin, 2003), and are the foundations used to "characterise societies and individuals to trace change over time, and to explain the motivational bases of attitudes and behaviour" (Schwartz, 2006, p. 2). These universal values include those associated with power and conformity.

vii) Culture

The concepts and meanings of culture viewed from the anthropological and sociological perspectives and the linkages with identity are considered.

2.1.1 Ideas About Human Nature

"*All the sciences have a relation, greater or less, to human nature and all in some measure are dependent upon the science of man*" (Hume, 1739/2007, p. 5).

Wilson (1978) sees human nature as the "full set of innate behavioural predispositions that characterise the human species, those predispositions that affect social behaviour" (p. 217). In contrast, there is the view that it is not biologically fixed, and man constructs his own nature by way of a social enterprise. This links together man's specific humanity and his sociality. "Homo sapiens is always, and in the same measure, homo socius" (Berger and Luckmann, 1966, p. 67).

Assumptions about human nature underpin the arguments about social contract theory, which was described by Friend (2015) as the view that a person's moral and / or political obligations are dependent upon a contract or agreement among them to form the society in which they live. Hobbes (1651/1999) argued that humans are exclusively self-interested, but that they are also reasonable, with a rational capacity to pursue their desires as efficiently and maximally as

possible. For Hobbes, the social contract comprises the agreement to establish society by collectively and reciprocally renouncing the rights individuals had against one another in the ‘State of Nature’, and to imbue some one person or assembly of persons with the authority and power to enforce the initial contract. Locke (1689/1823) saw people as being free to form a society based on a voluntary morality rather than political agreement. Rousseau (1762/2010) stated that "man was born free, and he is everywhere in chains" (p. 1). That is, humans are essentially free, and were free in the ‘State of Nature’; but the ‘progress' of civilization has substituted subservience to others for that freedom, through dependence, economic and social inequalities, and the extent to which we judge ourselves through comparisons with others. Therefore, for Locke, the most basic covenant, the social pact, is the agreement to collectively renounce individual rights and freedoms and transfer them to the collective body, creating a new ‘person'.

According to Hume (1739/2007), we are both selfish and humane. We possess greed, and ‘limited generosity’, that is, we are fundamentally loving, parochial, but also selfish creatures.

While Hobbes bases his argument on the individual benefit for each party to the contract, Kant (1797/1996) bases his on the freedom for all persons in general, not just for the individual benefit which the parties to the contract, obtain in their own particular freedom. To this extent Kant is influenced more by Rousseau's idea of the ‘General Will’. Kant (1784/1963) also argues that the highest purpose of ‘Nature’ is attainable only in a society with the greatest freedom. That is, a society with the most exact definition of freedom and with its limits fixed so that it may be consistent with the freedom of others. Rawls (1971) relies on a Kantian understanding of persons and their capacities: arguing that people have the capacity to reason from a universal point of view, which means that they have the moral capacity to judge principles from an impartial standpoint. People are assumed to be rational and disinterested in one another’s well-being.

These ideas represent explanations of the relationships between the individual and society based on assumptions about human nature. Freud developed psychoanalysis to study human nature at the individual subconscious level. He defined psychoanalysis as the study of the "vicissitudes of the instincts" (Freud, 1915/2010 p. 2955). In doing so he confirmed his views that the instincts have no fixed social goal and of the plasticity of human nature. Freud (1914, 1921, 1923) proposed the psychological entities of the 'id': our animal selves; and the 'ego', our social selves. "The ego represents what may be called reason and common sense, in contrast to the id, which contains the passions." (Freud, 1923/2010, p. 3959). "The super ego (Ego Ideal) exists as a differentiation within the ego (Freud 1914/2010, p. 3962) comprising the precepts of 'You ought to be like this' (like your father), and 'You may not be like this' (like your father)" (Freud, 1914/2010, p. 3968). Thus, for psychoanalysis, man is a social animal; his social nature is profoundly reflected in his bodily structure. Giddens shared the general emphasis of psychoanalytic theory, but without implying a commitment to the more detailed elements of Freud's theoretical or therapeutic scheme, arguing that "human wants are hierarchically ordered, involving a core 'basic security system' which is largely inaccessible to the consciousness of the actor" (Giddens, 1993, p. 124). Wrong (1961) developed Freud's line of thought, and argued that man was a social animal without being entirely socialised. Socialisation is used in the senses of the transmission of the particular culture of the society an individual enters at birth; and of the process of acquiring uniquely human attributes from interaction with others.

Human nature then can also be seen in motivational terms, as important to social theory in three ways. Firstly, motivational elements may operate unconsciously and as unacknowledged causes of conduct. Secondly, motives generate courses of action which facilitate the achievement of 'social interest', where a response to others serves as a means to the pursuance

of particular interests. Thirdly, the theory of motivation is immediately relevant to that of the reproduction of structure (Giddens, 1993).

Motive is a complex of subjective meaning which seems, to the actor or to the observer, an adequate ground for the conduct in question. However, what actors want to accomplish with their acts and what actually happens, are in many cases two very different things (Weber, 1904/1958, 1922/1978). Mills (1940) argues that motives are the terms with which interpretation of conduct by social actors proceed. The "differing reasons men give for their actions are not themselves without reasons" (p. 904). Motives are accepted justifications for present, future, or past programmes or acts, so when an agent vocalises or imputes motives, he is influencing others, and not just describing personal experience or stating reasons. This may involve an appeal to a vocabulary of motives associated with a norm with which both members of the situation are in agreement. As such, it is an integrative factor in future phases of the original social action (ibid pp. 907-8). The motives used in justifying or criticizing an act link them to situations, integrate one man's action with another's, and line up conduct with norms. In this sense motives are "social instruments, by which the agent will be able to influence himself or others" (ibid p. 908). The motivational structures of individuals and the patterns of their purposes are relative to societal frames. Mills (1940) argues that "[m]otives vary in content and character with historical epochs and societal structures" (p. 913).

The motivations of self-interest, egoism, altruism, trust, and conformity are now considered.

2.1.2 Self Interest

Adam Smith followed the social contractarian ideas of Hobbes and Locke, arguing that man is both a social animal and that reciprocal self-interest is a motivational driver: "man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only … It is not from the benevolence of the butcher, the brewer, or the baker

that we expect our dinner, but from their regard to their own interest." (Smith, 1776/2005, pp. 8-9). However, he also observes that "how selfish so ever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it" (Smith, 1790/2006, p. 1).

This apparent contradiction is reflected in the concepts of 'homo economicus' and 'homo sociologicus'. Homo economicus is assumed to be logical, to pursue goals in a rational manner and to be honest only to the extent of having economic incentives for being so. In contrast, homo sociologicus emphasises the normative basis of behaviour, which are necessary for viability in fields where strictly economic incentives are absent and cannot be created (Johansen, 1977; Kangas, 1997). Thus, people may act in self-interest (homo economicus) or for the common good (homo sociologicus), depending upon the context (Laffont, 1975). For example, a person can act differently in a trustee on a nonprofit board role than as an executive director on a for-profit board.

2.1.3 Altruism and Egoism

"*Altruism is not … an agreeable ornament to social life, but it will forever be its fundamental basis. How can we really dispense with it?"* (Durkheim, 1984, p. 288).

While the concepts of homo economicus and homo sociologicus give context an important role, they also imply the existence of underlying egoistic motivations in human nature. There is however a sharp distinction between egoism and self-interest. Self-interest, according to Locke (1689/1823), produces voluntary social cooperation, whereas the absolute egoist view, that a person can do what they want to anybody (Stirner, 1910), can be seen to differ fundamentally from self-interest. Spencer (1892) pointed out that we regard the rights of others in proportion to our regard for our own rights (ie our self-interest).

Bateson (1991) suggests that "egoism can be viewed as a motivational state with the ultimate goal of increasing one's own welfare" (pp. 6-7), and furthermore "looking out for 'number one' is not only prudent, it is inevitable ... we seek to serve our own ends" (ibid, p. 3). He also argued that altruism is similarly a motivational state, which has the ultimate goal of increasing another's welfare, the motivation being directed towards some goal, which is an end in itself. Bar-Tal (1985/86) noted that "most of those who emphasise the motivational aspect of altruism agree that: altruism (a) must benefit another person, (b) must be performed voluntarily, (c) must be performed intentionally, and (d) the benefit must be the goal by itself, and it must be performed without expecting any external reward" (p. 5).

This view is challenged by the 'pseudo-altruistic' approach, wherein the term altruism does not refer to a motivational state which has the ultimate goal of increasing another's welfare, rather it is viewed as a form of egoism; where for example altruism becomes prosocial behaviour which seeks self-rewards through a process of internalisation (Cialdini, et al., 1981). This view essentially accords with that of Gauthier (1986) who developed Hobbes' social contract argument. He argued, using rational choice theory and game theory, that rationality alone convinces persons to agree to cooperate and to stick to their agreements. Thus, by acting to further the interests of the other, one serves one's own interests as well. Piliavin and Charng (1990) disagree with this view, suggesting that there is now both theory and data which is compatible with the view that true altruism – acting with the goal of benefiting another – does exist, and is a part of human nature.

Wilson (1975) defines altruism, without using the concept of motivation, as "self-destructive behaviour performed for the benefit of others" (p. 578). Similarly Margolis (1982) argues that "altruism lacks any normative content or group interest, but simply says that the actor (who is not necessarily the recipient) could not have done better for himself had he chosen to ignore the effect of his choice on others" (p. 15). An opposing view of Schwartz and Howards (1982)

provides that motivation is reflected through personal norms which are "situated, self-based standards for specific behaviour generated from internalised values during the process of behaviour decision making" (p. 234). That is, there are feelings of moral obligation to perform or refrain from certain actions, which manifest internal altruistic traits.

Altruism and egoism therefore are argued as being important elements of human nature which provide the bindings for institutions and society: both resting on the issue of motivation. Egoism forms a foundation for Western philosophy and leads to the assumptions underlying much of economic and social theory. Bateson (1991) emphasises the importance of this by his comment; "imagine the changes in economic theory and models of social change if we drop the assumption that self-benefit alone defines utility and value" (p. 4).

2.1.4 Trust

"*One of the most salient factors in the effectiveness of our present complex social organization is the willingness of one or more individuals in a social unit to trust others. The efficiency, adjustment, and even survival of any social group depends upon the presence or absence of such trust*" (Rotter, 1967, p. 651).

Rotter (1971) defines trust to be "an expectancy held by an individual or a group that the word, promise, verbal, or written statement of another individual or group can be relied on" (p. 443). Morgan and Hunt (1994) argued that trust existed when "one party has confidence in the exchange partner's reliability and integrity" (p. 23). This however, does not include the behavioural intention of 'willingness' which is crucial because the belief that a partner is trustworthy without being willing to rely on that partner, shows that trust is limited (Moorman et al., 1992).

The issue of collective trust concerned Hobbes (1651/1999). He asked: how can society exist when there are individual temptations to select short term hedonistic actions when all parties

would be better off if each party selected actions leading to higher group and individual returns? The Hobbesian solution is to impose external enforcement of agreements on communities, which requires a mechanism to coordinate strategies in some fashion, such that the parties receive a 'co-operators dividend' through the norm of reciprocity (Ostrom, 2003). Axelrod (1984) asks the question: under what conditions does cooperation emerge in a world of egoists without central authority? He uses the game theory to suggest that cooperation is not based on trust so much as the durability and stability of the relationship between actors.

Gouldner (1960) argued that reciprocity connotes that each party has rights and duties and beyond that, there is a generalised norm of reciprocity which defines certain actions and obligations as payment for benefits received. Or as Becker (1990) puts it: "we should return good for good, in proportion to what we receive;…we should resist evil, but not do evil in return;…we should make reparation for the harm we do;... furthermore that obligations should be felt in retrospect" (p.4). Which is the equivalent of the game theory strategy of 'tit-for-tat' (Axelrod and Hamilton, 1981).

In general, reciprocity norms have in common that individuals tend to react positively to the positive actions of others and negatively to the negative actions of others. The specific norms which individuals learn however, vary from culture to culture and across different types of situations (Ostrom, 2003).

2.1.5 Conformity

"*The need for eliciting favourable responses from others is an almost constant component of [personality]. Indeed, it is not too much to say that there is very little organized human behaviour which is not directed toward its satisfaction in at least some degree*" (Linton, 1945, p. 91).

It can however, be looked upon negatively. "*No shepherd and one herd! Everybody wants the same, everybody is the same: whoever feels different goes voluntarily into a madhouse*." (Nietzsche, 1885/2010, p. 18).

Conformity is a core human attribute, which can be exhibited through compliance. Compliance is a change in behaviour which is requested, and obedience is a change in behaviour which is ordered, caused by another person or group. Conformity encompasses both compliance and obedience because is it refers to any change in a person's behaviour caused by another person or group. However, it does not refer to effects of other people on internal concepts such as attitudes or beliefs (Breckler et al., 2006). Psychological experiments (Sherif, 1935, 1936, 1937; Asch, 1951, 1952, 1956) demonstrated that if people around an individual do things which do not seem to make sense, then that individual will often conform, especially when the situation is ambiguous and there is uncertainty about the individual's own judgement and experience. Eysenck (2004) observed that conformity can be seen as "yielding to group pressures, and by not being the odd one out" (p. 724). The reality of conformity and its persistence was demonstrated experimentally, implying that social norms can persist in social groups despite the complete changes in group membership (Jacobs and Campbell, 1961).

Conformity can be viewed as an aspect of the interplay between an individual's free will and societal structures over time, and importantly, an individual's perceptions of these. This is reflected in the concept of 'habitus', which is created and reproduced unconsciously, "without any deliberate pursuit of coherence ... without any conscious concentration" (Bourdieu, 1984, p. 170).

Informational and normative influences appear to support conforming behaviour (Deutsch and Gerard, 1955). Informational influence is motivated by a desire to be correct and obtain accurate information. People trust other's judgements to be useful in a particular context.

Normative influence, on the other hand, occurs when people are influenced by others to gain rewards or avoid punishment. They might not necessarily think that other's behaviours or judgements are correct they simply want to be liked or to avoid conflict. Both influences can occur together (Breckler, et al., 2006).

2.1.6 Values

Values are "those conceptions of desirable states of affairs that are used as criteria of evaluation" (Williams, 1967, p. 23), and are "important in the exploration of the nature of the self and the individual's relationship to society" (Hitlin, 2003, p. 119). Williams (1979) noted that "the term 'values' has been used variously to refer to interests, pleasures, likes, preferences, duties, moral obligations, desires, wants, goals, needs, aversions and attractions, and many other kind of selective orientations" (p. 16). Further, values have been variously described as: enduring beliefs (Rokeach, 1973; Schwartz, 1994); an implicit or explicit conception of that which is desirable (Kluckhohn, 1951; Guth and Tagiuri, 1965); and as principles for action (Braithewaite and Blamey, 1998; Hutcheon, 1972). Cheng and Fleischman (2010) bring together these definitions of values to propose that "values serve as guiding principles of what people consider important in life" (p. 2). Values have also been described as concepts or beliefs, relating to desirable end states or behaviours, which transcend specific situations, and guide the selection or evaluation of behaviours and events (Schwartz, 1992; Schwartz and Bilsky, 1987).

The functioning of social institutions requires some degree of status differentiation (Parsons, 1951). Schwartz (2006) argues that to justify this fact of social life and to motivate group members to accept it, groups must treat power as a value. Power values such as authority and wealth, emphasise the attainment or preservation of a dominant position within the social system. Giddens (1993) links the notion of 'action' with that of power, arguing that "action intrinsically involves the application of 'means' to achieve outcomes … power represents the

capacity of the agent to mobilise resources to constitute those 'means'. In this most general sense, 'power' refers to the transformative capacity of human action. 'Power' in the narrower relational sense is a property of interaction, which may be the capacity to secure outcomes where the realisation of these outcomes depends upon the agency of others. It is in this sense that some have power 'over' others: this is power as domination" (pp. 116-117).

Shared values represent the extent to which partners have beliefs in common about what behaviours, goals, and policies are important or unimportant, appropriate or inappropriate, and right or wrong. They are a direct precursor of both relational commitment and trust (Dweyer, et al., 1987; Morgan and Hunt, 1994). Values also play a guiding and directing role in the functioning of the organisation and shared values are considered to be a primary component of an organisation's culture (Enz, 1988).

Baumeister and Muraven (1996) posited the existence of a 'value gap' in Western society. That is, a cultural deficit which presents individuals with a problem of how to find meaningful ways to endow their lives with value and make choices that are right and good. The most important cultural response to this value gap has been to elevate the self into a major value base. Thus, there is shared or common perception that the individual has a moral right, and even a duty, to do what is good for the self.

Overall, values can be considered as ideas held by human individuals or groups about what is desirable, proper, good or bad. Differing values represent key aspects of variations in human culture. What individuals value is strongly influenced by the specific culture in which they happen to live (Giddens and Sutton, 2013).

2.1.7 Culture

Culture, in the context of this review, does not include considerations such as those of Arnold (1869, p. 34) as the "pursuit of perfection, or of the refinement of manners – urbanity and

civility, learning". Although the observation of Eliot (1948), that "there is a hierarchy of culture, where that of the individual is nested within that of the group or class, which in turn is within the culture of the whole society" (p. 1) appears to be generally relevant.

From an anthropological viewpoint, Malinowski (1944) observes that "man, as he is, is molded by his complex, partly rational, partly emotional cultural setting" (pp 5-6). In this anthropological sense, culture has been defined by Tylor, (1871) as "that complex whole which includes knowledge, belief, art, morals, law, custom and any other capabilities and habits acquired by man as a member of society" (p. 1). This accords with the view of the plasticity of human nature. Giddens and Sutton (2013) define culture as the values, norms, habits and ways of life characteristic of a coherent social group. "It is a system of ideas" (Allaire and Firsirotu, 1984, p. 198).

However the concept of culture itself, insofar as its implications of normality and uniformity are concerned, has been argued to be a quasi-statistical one. Wallace (1952) noted that the "probability of using any specific cultural quality will vary according to the systematic and random alternatives a culture affords for the solution of a problem" (p. 748).

2.1.8 Concluding Remarks on Human Nature

The literature demonstrates the importance and plasticity of human nature. Rieff (1983) noted that every social order produces a doctrine of human nature, and that no doctrine of human nature has yet indicated its independence from the social order in which it has appeared.

While there is a wide range of human qualities, that is, those distinguishing features of a person's character, only the ones relating to motivations considered to be relevant for social interaction were considered. The motivating qualities of altruism, egoism, and trust have been shown to be deeply rooted, but importantly not mutually exclusive, in that any individual can and does exhibit them all in varying circumstances.

Humans demonstrate the quality of conformity, which is a key factor of being social animals. In the sense reviewed, conformity can be taken as a proxy for all those qualities which produce and arise from our need to act in social groups.

These qualities can be manifested through systems of value, which are supported by goals or motivations (Schwartz, 2006). They are culturally normative in that they "pertain to the realm of what 'ought' to be, desired states of being that constitute standards or criteria for making decisions and for justifying behaviour" (Gecas, 2008, p. 345). This led to a consideration of culture as a set of concepts, norms and ideas related to a coherent social group. Importantly, "culture makes it possible for both the individual performing an action and a spectator interpreting it to characterise the action for what it is, and to perform it as such" (Inglis, 2004, p. 7).

Wilson (1978) observed that, modern man is sociobiologically equipped only for an earlier simpler existence, but must now fulfil a multitude of different roles, and under the modern day stressful conditions even the 'true' self cannot be precisely defined. Goffman (1974) similarly considered that the self "is not an entity half-concealed behind events, but a changeable formula for managing oneself during them. Just as the current situation prescribes the official guise behind which we will conceal ourselves, so it provides where and how we will show through, the culture itself prescribing what sort of entity we must believe ourselves to be in order to have something to through in this manner" (pp. 573-574).

Human qualities, values and culture thus require a consideration of the self and of identity in order to be developed as tractable concepts applicable to social groups.

2.2. The Concepts of Self and Social Self

The previous section on human nature brought out the linkages between the individual, society and culture. Côté (1996) argued that culture and identity were linked through: social structure,

which include both political and economic systems; patterns of behaviour which characterise day-to-day contacts among people in socialising institutions such as the family and schools; and personality, which encompasses terms like character, self and psyche, including subcomponents such as ego identity. In order to develop this as a basis for individual and group action, the concepts of self, identity and social groups are considered. Mead (1934) argued that the self "is essentially a social structure, and it arises in social experience" (p. 140), and there is a reciprocal relationship between the self and society (Stryker, 1980). Stets and Burke (2003) expanded upon this, stating that "[t]he self influences society through the actions of individuals thereby creating groups and organisations, networks, and institutions, a society influences the self through its shared language" (p.132). Individuals through their social experiences, shape society, which in turn shapes individuals; thus, context is an essential feature of the self. This context influences identity formation through the shared values, ideologies, or norms that are socially constructed and communicated through signs, symbols, meanings, and expectations that are found in language, discourse or communication (Adams and Marshall, 1996).

The self-concept is also a set of meanings we hold for ourselves when we look at ourselves (Gergen, 1971; Stets and Burke, 2003). However, individuals experience themselves only indirectly from the standpoint of the other individual members of the same group, or from the idealised standpoint of the social group as a whole to which the individual belongs at any given moment (Mead, 1934; Morse and Gergen, 1970; Stets and Burke, 2003).

Turner (1984) developed the concept of the self into a structure which mediates between social situations and behaviour, using the concepts of personal and social identity. Burkley, et al. (2015) argue that there is variability in the degree to which internal, non-tangible constructs, such as: a person's thoughts (Briñol et al., 2013); beliefs (Abelson, 1986); opinions (Smith et al., 1956); ownership of arguments (De Dreu and van Knippenberg, 2005); and attitudes (Abelson and Prentice, 1989), can be perceived as being fused within the self. Thus, the self

can be seen as a process, which is itself simply a phase of the whole social organisation of which the individual is a part (Mead, 1934).

2.3 Identity Theory

Identity is "a set of meaningful definitions that are ascribed or attached to the self, including social roles, reputation, a structure of values and priorities, and a conception of one's potentiality" (Baumeister and Muraven, 1996, p. 406).

Identity theory deals with the structure and function of people's identity as related to the behavioural roles they play in society (Hogg et al., 1995; Simon, 1992). Role-identities as self-conceptions are based on enduring, normative, reciprocal ongoing relationships with other people. Roles are sets of behavioural expectations which are attached to positions in the social structure. Thus, identities based on positional roles should provide the individual with a sense of who they are and how they ought to behave. Role-identities thereby give individuals a sense of meaning and purpose in life and should provide behavioural guidance (Thoits, 1991).

Social identity theory is a psychological analysis of the role of self-conception in group membership, group processes, and intergroup relations. The approach is explicitly framed by a conviction that collective phenomena cannot be adequately explained in terms of isolated individual processes or interpersonal alone (Hogg, 2006). This is the psychological equivalent to the question addressed by the assumptions on human nature and the formation of society. The literature on identity is therefore considered as it refers to: role; behaviour; social identity; and motivation.

2.3.1 Role

The social nature of self can be thought of as being "derived from the role positions that people occupy in the social world, and these role identities vary in regard to their salience" (Hogg et al., 1995, pp. 258-9).

The categorisation of the self as an occupant of a role, and the incorporation into the self of the meanings and expectations associated with that role and its performance, are the core of identity. These role identities include the learned meanings a person attributes to the self, appropriate to that particular role; and motivations, in the sense of defining situations which call for specific behaviours or responses based on shared behavioural expectations for action (Burke, 1980; Stets and Burke, 2000). Identity theory produces a self which is as differentiated as the society within which it exists (Stryker, 1987). Turner (2006) is however, sceptical as to the existence of a neat linear hierarchy of salience among identities. He summarised the relationship between what he sees as the key four identities: the core, as most general; followed successively by social, group, and role. He argued that because they are more general, social and core identities are carried into virtually all social situations, whereas role identities and group identities are more likely to be salient when actually in a role or responding to a group.

2.3.2 Behaviour

Burke (1980) proposed that identity and behaviour are linked through a common system of meanings within which a person learns the meanings of a role identity by interacting with others. Stets and Burke (2003) proposed an expansion of meaning between identity and behaviour to include the concept of a perceptual control system or cybernetic model of the identity process, which, instead of seeing behaviour as being strictly guided by the situation or by internal self-meanings, is seen to be the result of the relationship between the two.

2.3.3 Social Identity

Reid and Deaux (1996) distinguish between collective selves, which reflect social identities and individual selves which reflect personal attributes rather than personal identities. According to Reicher et al. (2010), individual identity is not somehow more ‘real’ and more important to the subject than social identity. It is simultaneously individual and social, which explains how large numbers of people can act in coherent and meaningful ways, by reference

to shared group norms, values and understandings. A person's social identity is their sense of who they are, based on their group membership(s). A person derives a sense of self-worth and social belongingness from their memberships in groups, which also motivates them to draw favourable comparisons between their own and other groups (Tajfel and Turner, 2004). According to Cameron (2004), social identity has three separate but linked aspects: cognitive centrality, which relates to: the accessibility of the identity; the in-group affect, which is a self-evaluating feeling derived from identity; and the sense of attachment and belonging to the group that defines the identity. The nonprofit sector has a distinctive social identity, unified, amongst other things, through common feelings of seeking to achieve social purposes, the community of empathy, and moral duty towards the clients of the sector.

Group behaviour is "underpinned by social identity and while in the last analysis, 'individuals' deal with 'individuals', however they deal with each other, quite often, as members of well-defined and clearly distinct social categories" (Tajfel, 1978, p. 27). This moves away from the traditional assumption that the self should only be understood as that which defines the individual in relation to other individuals, and acknowledges that, in some circumstances at least, we can define ourselves through the groups to which we belong (Reicher et al., 2010). However, Ellemers et al. (1999) argue that the key proposal of social identity theory is that it is the extent to which people identify with a particular social group which determines their inclination to behave in terms of their group membership. In this sense, social identification is an emotional component, primarily referring to a feeling of affective commitment to the group.

Hogg et al. (1995) argue that the basic idea of social identity is that of a social category into which a person falls, and to which they feel they belong. This provides a definition of who they are in terms of the defining characteristics of the category. This self-definition is a part of the self-concept. Reicher et al. (2010) linked social identity theory to self-categorisation theory by noting their common concern with the processes which surround the way that people define

themselves as members of a social group, that is, their social identity. Social identity is a relational term, which defines who we are as a function of our similarities and differences with others. Since it is shared with others, it provides a basis for shared social action.

2.3.4 Motivation

Social identity should be viewed as something which shifts focus from self-interest to group interest as the basic motivation for behaviour. Since this transfer may require self-sacrifice in the interests of the group, a motivational explanation is required (Brewer and Picket, 2003).

Perhaps one of the most important implications of social identity theory is that the 'self' of 'self-interest' is presupposed to be the personal self. However, where social identities are salient and constitute the self then a utility to a fellow ingroup member can constitute a utility to the (collective) self (Reicher et al., 2010). This stands in contradiction to many of the ideas underlying the social contract and classical economic theory which assume that individuals act only in their own interest. In many situations individuals act in the interests of some entity larger than themselves. That is, there is "a prescriptive norm within a collectivity that one should forgo self-interest and act in the interests of the collectivity" (Coleman, 1988, p. 104).

The way people act appears to depend on the frame or context (Brewer and Kramer, 1986). For example, whether people think of themselves as single autonomous individuals or regard themselves as sharing membership in and identification with a larger aggregate or social unit. This view has implications across the range of the governance theories, through the bridge of social groups and can be used to explain why the same person will act differently as an executive or non-executive in the for-profit sector than as a non-executive in a nonprofit organisation.

2.4 Social Groups

"*We do not act as isolated individuals but as social beings who derive an important part of our identity from the human groups and social categories we belong to*" (Tajfel et al., 1984, p. 5).

Groups must be treated as if they have their own life, laws and characteristics, regardless of whether you consider that they exist independently of their members, with their own lives, laws and characteristics separate from their members. (Simmel, 1950; Turner, 1984). Social identity theory, in contrast to identity theory, develops the self-concept as the psychological basis of group affiliation and the development of group norms. This is discussed below by considering: social groups and norms; belonging; categorisation; prototypes; and stereotypes.

2.4.1 Social Groups and Norms

The group is a collection of individuals who share a social categorisation of themselves (social self), which provides the psychological basis of group affiliation. This concept of social identification is a key aspect of social identity theory (Oakes and Turner, 1990; Reicher et al., 1995). It brings together the classic notion of personal identity with that of social identity which relates to the groups to which the individual belongs. The replacement of a unitary with a multiple concept of selfhood, means that in becoming part of a group, individuals shift from the personal to the social level of identification. These identities are hierarchical, with the self as a social group member, being of a higher level to the personal self-categorisation of personal identity (Oakes and Turner, 1990). A key attribute of group membership is that people involved: consider themselves to be members; recognise one another as members; feel connected to other members; and coordinate their behaviour (Arrow et al., 2000).

Group norms are a fundamental aspect of group structure and have a powerful influence on behaviour. These norms provide direction and motivation, and organise the social interaction of group members by regulating group member's behaviour (Forsyth, 2010; Hahn, 2010).

Groups may develop their own norms which members must learn when they join the group. These norms are: prescriptive, defining the socially appropriate ways to respond in a social situation; proscriptive, defining those actions which group members should not do; and descriptive, describing what people usually do; and injunctive, which concern behaviours which people ought to do (Forsyth, 2010).

2.4.2 Belonging

Group membership is concerned with belonging to the group. The need to be both unique and to belong to a group is found in all cultures and is innate among human beings, and group identity brings meaning and clarity in social contexts (Adams and Marshall, 1996; Baumeister and Laury, 1995; Brewer, 1991; Brewer and Picket, 2003). Brewer (1991) hypothesised that "social identity and group loyalty are the strongest for those self-categorisations that simultaneously provide for a sense of belonging and a sense of distinctiveness" (p. 475). Belonging is dialectical linked with not-belonging, which together create the need to differentiate one group from another, and to the existence of ingroups and outgroups.

2.4.3 Categorisation, Self-categorisation, and Depersonalisation

Categorisation and self-categorisation, which are extensions of social identity theory, depersonalise an individual's perception, transforming them into ingroup or outgroup prototypes. The process of self-categorisation, which is the cognitive basis of group behaviour (Terry and Hogg, 1996), places the self and others into ingroup and outgroup. This accentuates the perceived similarity of the relevant ingroup or outgroup prototype, that is, the cognitive representation of features which describe and prescribe attributes of the group (Terry and Hogg, 1996). This act of categorising someone as a group member transforms how they are seen, thereby depersonalising them. Depersonalisation in this sense means viewing oneself as a category representative rather than as a unique individual. Therefore, we seek to include

ingroups in the self because doing so increases our confidence that we can meet the demands of our world and achieve goals (Hogg, 2006).

These processes produce conformity to ingroup norms by assimilation of self to the ingroup prototype (Abrams and Hogg, 1990; Turner, 1985; Turner and Oakes, 1989). This conformity is a deep process which transforms people's behaviour to correspond to the appropriate self-defining group prototype (Terry and Hogg, 1996).

2.4.4 Prototypes

Prototypes embody all the attributes which characterise groups and distinguish them from other groups, including beliefs, attitudes, feelings, and behaviours. Within groups, "people can distinguish themselves and others in terms of how well they match the prototype" (Hogg and Terry, 2000, p. 126). The content of prototypes strongly influences group phenomena by enabling people within groups to distinguish among themselves and others in terms of how well they match that prototype and maximise similarities within and differences between groups, so defining groups as distinct entities (Hogg, 2006; Hogg and Terry, 2000). Prototypes may be formed as the average or most typical member, but in most cases the prototypic member does not actually exist (Posner and Keele, 1968; Reed, 1972).

2.4.5 Stereotyping

Tajfel (1984) observed that social stereotypes seem to fulfil at least three major functions (separately or in combination) for a social group; providing: "socially shared explanations of complex social events; positive differentiation from other relevant groups; and justification of actions planned or committed against other groups" (p. 698).

Stereotypes refer to simplified 'pictures in our heads' (Lippmann, 1922), which may be descriptive, saying how people in a group supposedly behave, or prescriptive, saying how they ought to behave (Fiske, 1993).

Stereotyping can be viewed as "the agreement amongst members of the one social group that certain attributes are possessed by all or most members of some other group" (Turner, 1984, p. 528). Therefore, a member of a group is viewed as having all the attributes of the stereotype of that group and as being distinct from members of other groups; which as proposed by Operario and Fiske (2001), "maintain division between ingroups ('us') and outgroups ('them')" (p. 24). This division between in and out groups encourages people to allocate more rewards to ingroup members than outgroup members" (Brewer, 1979, p. 307), and to have more positive unconscious reactions to words referring to ingroup than those referring to outgroups (Perdue et al., 1990). Stereotyping is then a powerful mechanism for making sense of the world, judging and for control (Lipmann, 1922; Operatio and Fiske, 2001).

An alternative, although compatible, explanation has been put forward by Wright et al. (2002), which suggests that identification with a group is more than the mere recognition of a person's membership of the group, and not simply whether one evaluates the group positively. They argue that ingroup identification involves the degree to which the person feels an enduring sense of interconnectedness between themselves and the group. Thus, at its most basic level, ingroup identification represents the degree to which the ingroup is included in the self. The 'exemplar model' has also been suggested as an alternative to prototype based stereotyping. In this model, mental representations involve variability rather than typicality and homogeneity (Linville et al., 1989). The exemplars influence perception and categorisation and may operate at an unconscious level (Smith and Zàrate, 1992).

Taken together, these features provide strength from the group, but can also provide the basis for 'groupthink' (Janis, 1972) where the individual simply conforms to the values and views of the group without providing an independent contribution.

2.5 Conclusion

This chapter reviewed the literature on human nature on the assumption that humans are innately social animals. This property is viewed as the ultimate reason for the creation of stable societies. The concepts of self, and identity were reviewed, leading to the conclusion that social identity is the key theoretical construction for social groups. This lays the foundations for a review of governance in the next chapter, based on the perspective that boards and organisations function as groups within a wider group based environment.

While human nature includes a number of human qualities which, for example Smith (1790/2006) and Hobbes (1651/1999) set out; the literature review focused on those traits which are central to to the formation of social groups: self-interest, altruism and egoism, trust and conformity.

Self-interest continues to provide a strong theoretical basis, particularly for economic and governance theories. Self interest is also associated with power. For example, Hobbes derived from self-interest, a state of universal conflict, in which he argued that some individuals might be content with sufficiency, but self-preservation required that even these seek "infinitely more power in order to protect themselves against the predations of the insatiable" (Hobbes, 1651/1999, p. 102). Hobbes's central argument suggests that humanity's natural state is one in which each of us pursues self-interest so unabashedly that we need a strong central government to restrain our selfish natures or else we shall destroy each other. Edgeworth (1881) translated this into the economic precept that every agent is actuated only by self interest. He did however caveat that by adding that "man is for the most part an impure egoist, a mixed utilitarian" (p. 104).

Sen (1977) questioned the self-interest assumptions of economists and rational-choice theorists, arguing that sympathy for other people and commitment to a principle, produce two key

departures from self-interest. That commitment, which involves counter preferential choice, "drives a wedge between personal choice and personal welfare, and much of traditional economic theory relies on the identity of the two" (p. 329). Hirschman (1985) stated that “while the economic postulate of the self-interested, isolated individual had yielded some important insights, there were intrinsic weaknesses which leads us to believe that this assumption is too simpleminded to account for fundamental economic processes such as consumption and production” (p. 7).

Dawes and Thaler (1988) recounted that economics can be distinguished from other social sciences by the belief that most, and possibly all, behaviour can be explained by assuming that agents have stable, well-defined preferences and make rational choices consistent with those preferences in markets. They however, note instances when predictions derived from this assumption of rational selfishness are violated in many familiar contexts.

Altruism was considered as an alternative motivation to that of self-interest, and its existence, as a different quality of human nature, accepted. The quality of trust, as an expectancy that another person can be relied upon, is one which is required for the existence of society and is closely associated with the norm of reciprocity. The existence of human society depends on the property of conformity, which is also a proxy for other group properties such as compliance, obedience, leadership and followership.

These human qualities led onto values, which serve as guiding principles of what people consider to be important, and enable the exploration of the nature of the self and the individual's relationship to society. Values are foundations used to characterise societies and individuals, and to explain the motivational bases of attitudes and behaviour. Conformity values emphasise self-restraint in everyday interaction, usually with close others, deriving from the requirement that individuals inhibit inclinations that might disrupt and undermine smooth interaction and

group functioning. Overall, values are ideas held by individuals or groups about what is desirable, proper, good or bad. Differing values represent key aspects of variations in human culture. The individual's value is strongly influenced by the specific culture in which they happen to live (Giddens and Sutton, 2013).

Culture was considered, but from a sociological viewpoint Giddens and Sutton (2013) define culture as "the values, norms, habits and ways of life characteristic of a coherent social group" (p. 1054).

The chapter then considered the literature on the individual and social self, and the various aspects of identity. Reicher et al. (2010) argue that perhaps the most profound implication of social identity theory is the idea of collective interest, which undermines dominant conceptions of rationality based on the individual.

The concepts of social groups, the social self and social identity were brought together through identity theory and social identity, by considering: social groups, belonging, categorisation, self-categorisation, depersonalisation, prototypes, and stereotyping. While it is important to see groups as entities and not simply as a sum of the individual members, the role, background and characteristics of individual members should not be ignored. As Wertheimer (1924) puts it "there are entities where the behaviour of the whole cannot be derived from its individual elements nor from the way these elements fit together; rather the opposite is true: the properties of any of the parts are determined by the intrinsic structural laws of the whole" (p. 7). This seems to accord with Durkheim (1915), that "from the moment when it is recognised that above individual there is society, and this is not a nominal being created by reason, but a system of active forces, a new manner of explaining man becomes possible" (p. 447).

The next chapter considers the literature on the theories of governance of society, which are based on the assumptions of individual rationality, self-interest, altruism, common interests,

and the manner in which individuals operate as groups or networks. The theories of corporate governance are then considered. These ultimately rest on the board as a small group of individuals which operates as part of and alongside other groups, the theory of social groups, their self-identity, and their intra and intergroup group conflicts.

CHAPTER 3: Governance

This chapter reviews the literature concerning governance and corporate governance as institutions, and the manner in which these institutions affect people who operate within them. The chapter is divided into three parts:

I Governance Concepts, Theories and Models;

II Public, Quasi Public and Third Sector Governance; and

III Corporate Governance.

I Governance Concepts, Theories and Models

Part I is divided into four sections which are concerned with: the various definitions, concepts, theories and models of governance; the relationship between governance and government; economic governance; and network governance.

3.1 Definitions

Governance has multiple meanings: Jessop (2003) notes that "at the same time, however, it has become a rather fuzzy term that can be applied to almost everything and therefore describes and explains nothing" (p. 4). This echoes the observation of Stoker (1998), that the concept of governance is intuitively appealing but ambiguious, and is used for rhetorical rather than sustantive reasons. Heinrich and Lynn (2000) observed that despite the strong intuitive appeal, governance has not been defined clearly. This section seeks to clarify the the definitions of governance.

There is a wide range of definitions of the term 'governance', which reflects the perceived scope of the concept and the disciplines from which they have been derived, concerning: rights and responsibilities under the rule of law (Kooiman, 1999; Lee, 2003; Lynn et al., 2001; Rosenau, 1992); networks (Rhodes, 1996, 2000); and the control of organisations in the public and private sectors (Bevir and Rhodes, 2003; Cadbury, 1992; CIPFA, 1995; Rhodes, 2000).

These seem to be a mixture of general principle and process. Lee (2003) sought to summarise governance as a way of "defining rights and responsibilities of members who face certain common problems, public or private, and who want to resolve them jointly" (p. 4).

Governance in democratic societies has been argued to be based on: a hierarchical centralisation with formal systems of control and accountability; or a weaker centralisation which allows for innovation and change through managerial power, maximisation of output and economic rationalisation. Alternatively, a decentralised approach can be followed which emphasises flexibility and expansion. A third approach rests upon decentralised self-governance, which emphasises citizen power, devolution and participation (Newman, 2001).

Other classifications in the governance literature include the: state-centric 'old governance' and society-centric 'new governance' (Pierre, 2000); market, participatory, flexible, and deregulation models (Peters, 1996); privatisation of services, contracting out, and compulsory competitive tendering or the introduction of a contract culture into the world of government (Andrew and Goldsmith, 1998); the managerial, corporatist, progrowth, and welfare models (Pierre, 1999); procedural, corporate, market, and network models (Considine and Lewis. 1999); and collaborative governance where one or more public agencies directly engage non-state stakeholders in a collective decision-making process (Ansell and Gash, 2007).

Following the general category of rights and responsibilities; governance appears to mean how the state adapts to its external environment; and how social systems are coordinated, bureaucratically, democratically and through the market. (Beetham, 1996; Pierre, 2000). Coordination in the UK has fragmented into a system of local governance involving complex sets of organisations drawn from the public and private sectors, but which the centre of Westminster government cannot properly coordinate (Rhodes, 1992). Thus while bureaucracy remains important, it is not appropriate for all situations, similarly neither are market solutions.

The review of the governance literature will now be more narrowly focused in relevant areas under the headings of: government and governance; economic governance; networks; and in Part II, by a review of public sector governance.

3.2 Government and Governance

Rhodes (1996) states that, traditionally 'governance' was a synonym for government, but now governance signifies "a change in the meaning of government, referring to a new process of governing; or a changed condition of ordered rule; or the new method by which society is governed" (pp. 652-653). Stoker (1998) argues that governance is also about "creating the conditions for ordered rule and collective action. ...[and] that the essence of governance is its focus on governing mechanisms which do not rest on recourse to the authority and sanctions of government" (p. 17). This view does not fully accord with the reality of the state as regulator as it is in the nonprofit sector, which is addressed more generally by Fukuyama (2013b) who defined governance as a "government's ability to make and enforce rules" (p. 3).

The view of governance as a mechanism is related to the issue of power in governance relationships. Wilson (1887) saw governance as administration and a field of business, which is "part of political life only as the methods of the counting house are part of the life of society" (p. 210). Aspects of power were considered by Weber (1919/1946), who argued that "organised domination, which calls for continuous administration, requires that human conduct be conditioned to obedience towards those masters who claim to be the bearers of legitimate power. ... Thus, organised domination requires control of the personal executive staff and the material implements of administration" (p. 2). This comment concerns state regulatory power, which Mann (1984) reflects in the concepts of: infrastructural power, which the state derives from the social utility which cannot be provided by civil society itself; and despotic state power, which arises from the inability of civil society to control the infrastructure once it has been set up. Fukuyama (2013a) is more interested in infrastructural power, ie the logistics of political

control rather than despotic power, and he therefore excludes democratic accountability from the definition of governance and normative views on democracy and despotism from the definition of governance.

Governance is political by nature, comprising formal and informal institutions, decisions, and influences (Lee, 2003). It is a regime of laws, rules, judicial decisions, and administrative practices which enables the provision of publicly supported goods and services (Lynn et al., 2001). From a legal perspective, Sweet (1999) sees governance as ‘‘the social mechanism by which the rules in place in any given community are adapted to the experiences and exigencies of those who live under them” (p. 147). So in the UK, its highly functionally differentiated system has been made more complex by the trend towards establishing principal–agent relations throughout much of the machinery of government (Stoker, 1998). In this context the tasks of government in governance are: composition and co-ordination; managing social tensions to achieve policy objectives through collibration and steering; and integration and regulation (Dunshire, 1993; Kirkbride and Letza, 2004; Kooiman and Van Vliet, 1993).

3.3 Economic Governance

The concept of governance as applied to the economy or economic sectors is well recognised (Campbell et al., 1991; Hollingsworth et al., 1994; Kooiman, 1999; Wade, 1990). Van Kerksbergen (2004) noted that the concept had developed in a number of disciplines, including: economic history (North and Thomas, 1973; North, 1990); institutional economics (Williamson, 1975, 1985, 1996); economic sociology (Smelser and Swedburg, 1994); comparative political economy; (Crouch and Streeck, 1997; Hall, 1999; Hollingsworth and Boyer, 1997); and labour relations and labour economics (Soskice, 1990; Streeck, 1992).

Gamble (2000) argued that governance denotes the steering capacities of a political system: the ways in which governing is carried out. The state is always involved in governance, but often

only in an enabling rather than a directing role; helping to establish and sustain the institutions in society, including crucially, markets which make steering possible. Van Kerksbergen and Van Waarden (2004) note that the economy cannot function in a vacuum. Institutions must be created to provide, monitor and enforce 'rules of the game', which among other things fix property rights, back up contracts, protect competition, reduce information asymmetries, and reduce risk and uncertainties. Governments are only one source of such institutions. Thus, governance is broader than government, since much of this takes place without direct state intervention or involvement. However, "the shadow of the hierarchy may either incite private actors to pre-emptively create private governance institutions or back up private governance arrangements such as courts enforcing contract law" (ibid, p. 147).

3.4 Networks

Governance is about autonomous self governing networks of actors (Stoker, 1998), which are the analytical heart of the notion of governance in the study of public administration (Börzel, 1998; Dowding, 1995; Rhodes, 1990, 1997, 2000). Networks have been conceptualised as pluricentric forms of governance, in contrast to multicentric (market) and unicentric or hierarchical forms (state, firm hierarchy). They are considered to be autonomous, self-organising, able to resist governmental steering, develop their own policies and mould their environments. They are characterised by the interdependence between organisations (public, private and voluntary), exchange of resources and negotiations, and by game-like interactions "rooted in trust and regulated by rules of the game negotiated and agreed by network participants" (Rhodes, 2000, p. 61).

Coordination mechanisms are context dependent. Frances et al. (1991) observe "if it is price competition that is the central co-ordinating mechanism of the market and administrative orders that of hierarchy, then it is trust and co-operation that centrally articulates networks" (p. 15). More deeply, 'rules of the game' are the "outcome of the interactions of resourceful and

boundedly rational actors whose capabilities, preferences, and perceptions are largely, but not completely, shaped by the institutional norms within which they interact" (Scharpf, 1997, p. 197).

Networks are thus informally organised, permanent, rule governed relationships, whose agreed rules build trust, communication, reduce uncertainty and are the basis of non-hierarchical co-ordination. Rhodes (1996) has the view that networks "are not better than either bureaucracies or markets. They have different characteristics and suit some policy areas some of the time. Reciprocity and interdependence, not competition, characterise network relations" (p. 665). They should be viewed as an alternative to, not a hybrid of, markets and hierarchies (Powell, 1990).

II Public, Quasi Public and Third Sector Governance Theories

3.5 Public Sector Governance

Part II reviews the literature concerned with the concepts and theories of the institutions, focussing on the nonprofit sector. For the purposes of this research the nonprofit sector comprises the following sub-sectors.

- The 'public sector', that is all nonmarket government-owned entities and corporations (including quasi-corporations—corporations that are not legally incorporated) which are owned or controlled by government units (Lienert, 2009).
- The 'quasi-public sector', which contains an increasing number of organisational forms and cannot easily be categorised into the public and private sectors. These include forms such as cooperatives, not-for-profits and government sponsored enterprises. One key determinant of publicness is the degree to which an organisation is affected by political

authority, and of privateness by the extent to which it exercises or is constrained by economic authority (Bozeman, 1987).

- The 'charity sector' which is made up of a wide range of organisations operating under charity law to achieve their charitable objectives.

This thesis is concerned with those organisations and sub-sectors which are: funded and regulated, directly or indirectly by government; and act to discharge the state's responsibilities to people through a direct or indirect commissioner – provider relationship. This relationship however does not necessarily limit the scope of the activities an organisation carries out.

The structure of the sector is historically determined and so this section considers the changes by describing the transition from public administration, through the neoliberal ideology, to New Public Management (NPM) as the means of implementing that ideology, and the public service motivation which resists that ideology.

3.5.1 Public Administration

Public administration is concerned with the management of public programmes, and needs to be "related to the broad generalisations of political theory concerned with matters such as justice, liberty, obedience and the role of the state in human affairs" (White, 1948, p. 10). Denhardt and Denhardt (2009) argue that the continued concern for operating efficiency, while at the same time operating in a way consistent with democratic values, 'marks' the field of public administration. This commitment to a democratic culture affects the work of those in public and charitable organisations. The differences between private sector governance and public administration rests on the differing purposes. While business is primarily concerned with profit, public service is concerned with delivering services, or regulating individual or group behaviour in the public interest.

Public administration can be characterised by the political nature of its view of service delivery, public policy making, and implementation, with a clear focus on the dominance of the 'rule of law' and the administration of a set of rules and guidelines. It emphasises the central role for a multi-layered bureaucracy in making and implementing policy along with the hegemony of the professional in public service delivery (Osborne, 2010; Schofield, 2001). The implementation of public policy is however made difficult by this hegemony and the multiple layers of bureaucracy (Hill and Hupe, 2003). Thus, Osborne (2010) observed "at worst, public sector managers and management are portrayed as the villains of the piece, thwarting the resolve of their political masters and often subverting the intentions of new policy for their own ends" (p. 5).

Historically, bureaucracies have been considered part of a legitimate democratic order because they are subject to control by a legislature which is itself accountable to the electorate. Bevir (2006) observes that if markets and networks are replacing bureaucracies, then new means of ensuring that the latter mechanisms remain appropriately democratic, are required. There is thus a continuing tension between social-orientated and business-orientated policy, which is often played out in the politics-policy environment (Sharkansky, 2005).

The transformation of governance by neoliberal ideology, implemented through NPM makes it appropriate to focus not on the individual state agency, but on the relationships among many different groups: public, private, and charity (Denhardt and Denhardt, 2009).

3.5.2 Neoliberal Ideology

"Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterised by strong private property rights, free markets and free trade. The role of the state is to create and preserve an institutional framework

appropriate to such practices. The state has to guarantee … the proper functioning of markets. Furthermore, if markets do not exist …. [t]hen they must be created, by state action if necessary" (Harvey, 2005, p. 2). Neoliberalism is a key reference point for many critical analyses of governance, and it provides a conceptual foundation for an array of changes and trends which have transformed local government. While it is not a unified doctrine, the common thread is the attempt to replace political judgement with economic market based evaluations (Davies, 2017; Geddes, 2011).

The conceptualisations of neoliberalism as: an ideology; a mode of regulation; and a market-oriented governmentality (Byrne, 2016), are now discussed.

(i) Ideology

As an ideology, neoliberalism is seen, particularly by its opponents, to have as its defining feature the overriding concern with the possessive individual and a desire to roll back the frontiers of the state on the grounds that it is an enemy of freedom (Bruff, 2014; Hall, 2011). This view focuses on: the class politics of restructuring; state rescaling as part of that restructuring; economic policy-making; and efforts on the part of state managers to deal with the negative externalities of neoliberal social and economic policies (Brenner et al., 2010a, 2010b; Harvey, 2007; Ong, 2007; Peck et al., 2009, 2013; Peck, 2010, 2011, 2013). Neoliberalism can thus be seen as an anti-political project which paradoxically can only be advanced by the state, and executed by sovereign agencies, whose full power and authority is not reducible to economic logic. There is a paradox that, while the state is a powerful instrument of neoliberalism, it is also its object of constant criticism (Davies, 2014, 2017). This elevation of market-based principles and techniques to the level of state-endorsed norms thereby provides an ideological basis of state regulation (Davies, 2013).

(ii) Regulation

The dominant view of neoliberalism is as a form of state or a mode of regulation (Bryne, 2016). In order to provide context, the concept of regulatory regime is first discussed. This is then followed by a consideration of definitions of regulation, and finally the application of regulation to the nonprofit sector.

Regulatory regimes exist in all societies, with the objective of controlling activities of various markets, quasi-markets and the public sector. "National cultural norms and values, and rules and regulations usually dictate the structure of the regulatory framework and its key constituent bodies which, in turn, reflect the nature and level of financial accountability to civil society" (IFAC, 2001, p. 5). A regulatory regime is a means for achieving regulatory goals through setting the rules, institutional arrangements, and cultures (Hood et al., 2001). The institutional structure is made up of: rules which prescribe the legislative social frameworks; expected behaviours or outcomes; standards which are benchmarks against which compliance can be measured; mechanisms for determining the degree of regulatory compliance; and sanctions for failure to comply with the rules (Den Hartog, 1999; Kay and Vickers, 1990; May, 2007). The regulation of nonprofit public agencies has been defined by Hood and Scott (1996) as "processes by which standards are set, monitored and/or enforced in some way, by bureaucratic actors who are somewhat separate from units or bodies that have direct operational or service delivery responsibilities" (p. 321). Chambers and Cornforth (2013) observed that the private sector systems of corporate governance were paralleled in the public sector through NPM. They argue however, that an important difference between organisations in the nonprofit and for-profit sectors is that the former are not fully independent, but are subject to a degree of political direction and control from government.

Historically the UK has moved from a nationalised to a regulated economy. In 2005 there were 674 recognised regulatory bodies in the UK, employing 61,000 staff. Ignoring regulations

concerning health and safety, environmental regulations, and accounting audit regulations, about 30-40% of UK GDP was regulated by one of the superregulatory bodies such as the FSA or OFCOM (Persaud, 2005). This characteristic has persisted; in 2017 there are 46 UK government departments, which work with a total of 366 agencies and public bodies; 384 agencies and other public bodies and 11 public corporations (https://www.gov.uk/government/organisations).

Regulation as a concept is not settled (Koop and Lodge, 2017). Baldwin et al. (1998) for example, propose three broad categories of regulation: an authoritative set of rules, accompanied by some mechanism for monitoring compliance with these rules; all the efforts of state agencies to steer the economy; and all mechanisms of social control, including unintentional and non-state processes. Regulation is thus more than mere monitoring, it is the use of legal instruments to implement social-economic policy objectives.

Regulation has been given a number of definitions in the sphere of legal and socio-economic activities. For example, Den Hartog (1999) defines regulation as "the employment of legal instruments for the implementation of social-economic policy objectives" (p. 223). Regulation thus refers to an attempt by one organisation to control or modify the behaviour of another (Pfeffer and Salancik, 1978). The impact of regulation is greater in the nonprofit sector than in the private sector since the former is subject to a high degree of political direction and control from government. Hence, the governing bodies of public service organisations are often constrained in their ability to steer the organisation (Chambers and Cornforth, 2013).

Regulation is thus an instrument of policy and of politics which is grounded in the concept of the power which one party exerts to exercise this control and the response of the other party to resist or comply with this. While neoliberalism ideologically aspires to create markets which are free from state intervention, in practice, state intervention is increased in order to impose

versions of market rule (quasi-markets). The form of the regulatory regime is determined historically in the national context and of path dependency by the interaction of market-oriented, market-disciplinary initiatives with inherited regulatory frameworks, which are defined by social and political power (Peck et al., 2009).

(iii) Governmentality

Government covers not only the legitimately constituted forms of political or economic subjection, but also modes of action destined to act upon the possibilities of action of other people. Therefore, to govern is to structure the possible field of action of others (Foucault, 1994). Thus, government encompasses both the traditional sphere of government linked to state institutions, and of others beyond the state, such as at the level of 'community', and the government of the self. This concept of 'governmentality' echoes an interpretive approach to governance, composed of the networks and power relations which connect various parts of civil society to the central state and civil society. These networks include all the actors and practices that constitute the norms and power relations (Armstrong, 1994; Parton, 1991). Further, these relations and norms are not only institutions or social structures, but rather contingent products of dominant discourses (Barry et al., 1996; Dean, 1999; Rose, 1998).

Neoliberalism is argued to be a specific variant of governmentality which seeks to deal with the 'social question' and a "politically salient assault on the welfare state in Britain, Europe and the United States" (Rose, 1996, p. 51). It created a new form of government, comprising a diverse array of concepts, themes, theories, and 'objects' to be governed. This differs from classical liberalism, where the market was regarded as an autonomous, self-regulating sphere which good government ought to respect and keep a safe distance from. In Anglo-American neoliberalism in particular, the market becomes the principle upon which society is remodelled. Foucault (2008) observed that government has to intervene in society so that competitive

mechanisms can play a regulatory role, that is, a general regulation of society can be achieved by the market.

3.5.3 New Public Management

NPM is a set of highly mobile ideas about public management which has spread all over the world (Boston, 1996; Hood, 1991; Kettl, 1997). It is a body of doctrinal beliefs which answers administrative 'what-to-do questions' in government, is established as an accepted administrative philosophy, and provides a framework for making decisions about how to structure and manage public services based on neoliberal ideology (Aucoin, 1995; Boston et al., 1991; Stiglitz 1994). NPM is also a way of organising public services (Hood and Peters, 1994), including the construction of 'quasi-markets', which exist in diverse sub-sectors such as health and social care, education, social housing; as well as in government wide systems of financial management, personnel management, procurement and auditing (Robinson and LeGrand, 1994; Schick, 1996). NPM entails the creation of: mission driven, decentralised, incentive based organisations; the introduction of private sector management methods to those organisations in the public sector through performance measures; managing by results, value for money and closeness to the customer; and the concept of marketisation. That is, the introduction of incentive structures through contracting out, quasi-markets, and of consumer choice (Boston, 1996; Peters, 1994; Rhodes, 2000). In all these reforms the market is a model for public policy implementation, with the institutional reforms associated with NPM formally separating policy from service delivery (Kaboolian, 1998). The market is however a quasi-market, which may be described as a market-like situation where there are different kinds of producers competing with each other and which are under the close control of the public sector (Kähkönen, 2004) .

These reforms have the avowed intent of increasing efficiency, responsiveness and accountability of public managers and to change the culture and context within which public

managers conduct their duties to increase government's efficiency, effectiveness and accountability (Barzelay, 1992; Osborne and Gaebler, 1992; Hood, 1995, 1998).

NPM has changed governance structures through the diversification and fragmentation of public service delivery, which has led to the blurring of the boundaries between public, private and third sectors organisations (Saliterer and Korac, 2013). This transformation has triggered the emergence of concepts such as citizen engagement in order to improve public trust in government, thereby challenging traditional accountability meanings, mechanisms, and relationships (Behn, 2003; Pina, 2007; Schwartz, 2005). Holding public services to account is argued to be one of the key purposes of performance management, particularly within an NPM perspective, which is commonly held to be strongly influential in how we consider public services (Hood, 1991; May, 2007). The 'sanctions based model', which focuses on punishment through agency theory is common within the public services (Behn, 2001; Bovens et al., 2014).

Accountability, which is subjectively constructed and changes with context, has been categorised as: hierarchical, delivered through managerial structures; political, where organisations are accountable for the delivery of local and national ambitions; legislative through audit and inspection; professional through codes of behaviour; and to service recipients or more generally to 'society' (Lindberg, 2013; Romzek, 2000; Sinclair, 1995).

The central problem of accountability arises from the delegation of authority to a wide range of public and some private actors. That is, how to give them sufficient autonomy to achieve their tasks, while at the same time ensuring an adequate degree of control. The problems of accountability have been made manifest by the transformations in public administration made by NPM (Scott, 2000). At a fundamental level, accountability is closely associated with authority (though not necessarily political authority), and the act of discretionary governing. With this authority comes responsibility which is individually assigned to a person (Mill,

1861/1977). This responsibility requires trust, which is a key mechanism of accountability and is thus a central precondition for the legitimate delegation of authority (Scott, 2000). The Audit Commission recognised that the quality of governance affects levels of trust in public services since "[t]rust is at the heart of the relationship between citizens and government. … even if formal service and outcome targets are met, a failure of trust will effectively destroy public value" (Audit Commission, 2003, p. 8). The public value paradigm is argued to be a successor to NPM as a means of balancing democracy and efficiency (Stoker, 2006; Christensen and Lægreid, 2007). It seeks to meet the challenges of efficiency, accountability, and equity through its ability to point to a motivational force that does not rely on rules or incentives to drive public sector reform. It rests on a fuller and rounder vision of humanity than does either public administration or NPM (Alford and O'Flynn, 2009). It suggests that people are motivated by their involvement in networks and partnerships, and that these relationships with others are formed in the context of mutual respect and shared learning (Stoker, 2006). However this thesis focuses on NPM as the generally accepted model.

Public administration and NPM thus have clear political and philosophical differences; with NPM focusing on efficiency, based on private sector models, and public administration focusing on the public sphere. In this context, public means those things which touch all citizens, and the arrangements of society as a whole, in potentially any aspect; are carried out in public, subject to public view; and carried out for the public, according to a norm or ethos of public service. The differences in ethos between the public and private sectors call into question the extent to which conceptions of efficiency or models of organisation and human behaviour derived from one can be applied without qualification to the other. The public service ethos is argued to act in opposition to that of neoliberalism.

3.5.4 Public Service Ethos

NPM promoted a shift away from talking about a public sector ethos, towards that of a public service ethos, which suggested a synthesis between the traditional ethos and private sector models of customer service (Brereton and Temple, 1999; Needham, 2006, 2014). For example, the customer orientation transfers the ethical considerations of public service from process to end product. This means that ethical considerations are couched in terms of optimum outcomes for customers rather than the motives of the actors engaged in service provision, regardless of the sector in which the service provider is located (Hebson et al., 2003; Needham, 2006, 2014).

The Public Administration Select Committee (2002) stated that the "public service ethos should be the fundamental reference point for everything else in the [public service] reform programme" (p. 5). The common threads of public service ethos are: impartiality, accountability, trust, equity, probity and service. Le Grand (2010) observes that most models for public service delivery contain assumptions concerning "the motivations of the professional and others who provide the services concerned: that is to the extent which they are 'knaves', motivated primarily by self-interest, or 'knights', motivated by altruism and the desire to provide a public service" (p. 56).

The role of nonprofit bodies is to provide services which society feels to be important. The belief in the importance of these and associated values is thought to be shared by those who work in those organisations. This is contrasted with the "supposedly more selfish outlooks of those who are employed in the private sector whose individual rewards tend to be tied to profits and sales. … This so-called 'public service ethos' is valued by policymakers" (John and Johnson, 2008, p. 105). Perry and Wise (1990) argue that there are rational and affective aspects to ethos. Rational motivations are those which advance an individual's self-interest, such as the self-esteem that comes from working in the public interest. Affective motivations are about an individual's emotional response to an organisation, including altruism and empathy.

Wanting to work for the public interest, seems to be a prime motivator, and that those working in the public sector have a more altruistic motivation than those in the private sector (Buelens and Broeck, 2007; Crewson, 1995; Houston, 2000; John and Johnson, 2008; Public Services Productivity Panel, 2002; Vandenabeele, 2007). There is no evidence that the public service ethos has been weakened by the reform of institutions by privatisation, NPM, quasi-markets, contracting out and private finance projects, performance related pay and sanctions of performance measurement (John and Johnson, 2008; Public Administration Committee, 2002).

Needham (2014) observes the focus on value, rather than ethos, where value(s) may refer to the broader public or social value created by: public services (Alcock, 2010); and public value (Alford and O'Flynn, 2009; Moore, 1995).

3.5.5 Public Service Motivation

Motivation refers broadly to that which "energises, directs, and sustains behaviour" (Perry and Porter, 1982, p. 89); which is represented in the individual, job, work environment, and external environment. Chen and Bozeman (2013) observe that conventional wisdom suggests that motivation styles are either intrinsic or extrinsic (Hertzberg, 1966; Maslow, 1970; McGregor, 1960). Motivation studies in the nonprofit management have strongly emphasised the importance of intrinsic motivation, perhaps due to the mission-oriented nature of this sector. People working in nonprofit sector organisations are regarded as having a strong sense of altruistic mission but have limited external incentives (Alatrista and Arrowsmith, 2004; Cunningham, 2008; DeVaro and Brookshire, 2007). This results in the 'self-sorting' of managers (Moore, 2000), in that nonprofit organisations are more likely to attract individuals who are less concerned about self-interest and instrumental rewards, but who are concerned more about 'care and making a difference' (Baines et al., 2011; Light, 2002). Notwithstanding this, there is evidence which also shows that nonprofit and for-profit employees demonstrate

similar desires for benefits, job security, and a pleasant physical environment (De Cooman and Pepermans, 2012).

Employees of nonprofit organisations can be motivated by a mixture of motivators, such as salary, pension rights, interesting tasks, etc., and their associated motivations (self-interested, altruistic, intrinsic, extrinsic, etc.). Public service motivation (Perry et al., 2010) as a specific subset, plays an important role in the delivery of public services and the motivation which people have to serve others and contribute to the welfare of society at large. Therefore, public service motivation is distinguished by having "an orientation towards the known proximate other or the distant unknown or abstract other, including abstractions at the aggregate level such as the community or society as a whole—[which] makes public service motivation an integral characteristic of those who provide public services" (Brewer et al., 2012, p. 1). Perry and Hondeghem (2008) observe that "[p]ublic service motivation has been used by economists as 'code' for altruism, meaning the willingness of individuals to engage in sacrificial behaviours for the good of others without reciprocal benefits for themselves" (p. 5).

The differences in work attitudes between nonprofit and for-profit employees has been theorised through public service motivation, although with differing emphasises. Firstly, on a predispositional basis: it is "an individual's predisposition to respond to motives grounded primarily or uniquely in public institutions and organisations" (Perry and Wise, 1990, p. 368). Alternatively it is "the beliefs, values and attitudes that go beyond self-interest and organisational interest, that concern the interest of a larger political entity and that motivate individuals to act accordingly whenever appropriate" (Vandenabeele, 2007, p. 547). Or from an altruistic viewpoint, it is an individual's orientation to delivering service to people with the purpose of 'doing good' for others and society, that is, a commitment to the public interest. This commitment is the: motivation to deliver public services to serve the relevant society, based on value and duty; compassion, which is an emotionally or empathically based

motivation to do good for other in distress by improving public services; and self-sacrifice, that is, the will to bypass one's own needs to help others and society by providing services (Brænder and Andersen, 2013).

From the perspective of a person's work role, Christensen and Wright (2012) concluded that, regardless of sector, individuals with stronger public service motivation are more likely to accept jobs which emphasise service to others, with less weight being given to remuneration. This, they suggest, means that certain job characteristics or even job classes may be more attractive than others to individuals motivated by prosocial or altruistic values.

Public service motivation is also shaped by ethical factors. For example, Houston (2005) found that government employees are more likely to volunteer than for-profit employees, which he argues generally lends support for the hypothesis that public service motivation is more prominent in public service than in private organisations.

While this literature focuses on managers and workers, the analysis of the data indicates through socialisation and identification that the concepts are also relevant for non-executives in nonprofit organisations. This section follows this view by identifying and associating board member motivations with ways in which governance is enacted, without implying a direct causal link, which is of particular importance since board members have a high degree of discretionary power and scope for judgement (Froud et al., 2008).

3.5.6 Summary

This section considered public administration, the neoliberal ideology, and NPM as an expression of that ideology, which is resisted by the public service ethos and public service motivation.

The for-profit and nonprofit sectors are characterised by: their different organisational objectives, purposes, cultures, motivations of individuals; and the markets in which they operate. The governance of the nonprofit sector developed in an historical context, based on the neoliberal liberal ideology, but with resistance from those in the nonprofit sector. NPM forms a bridge between the historic values, culture and theories of the nonprofit sector and that of the corporate governance derived from the private sector; the theoretical bases for which are considered in the next section.

III Corporate Governance

Part III reviews the literature on corporate governance by: first considering the firms or other organisations to which the concept is applied; various definitions, and then the key theories of corporate governance. The behavioural theories of corporate governance are then discussed in terms of the 'black box', board dynamics and culture.

3.6 The Organisation

The definition of the firm (public corporation) arose from studying the operation of the private sector in the 'free market' (Coase, 1937; Penrose, 1995). The public corporation as a nexus-of-contracts is driven by the requirements of financial markets, theorised in terms of the share price as a criterion of value (Davis, 2005). The generally accepted theory of the firm asserts that the core purpose of the firm is to maximise net revenue in the face of given prices and a technologically determined production function. Cyert and March (1963) question the economist's view that the core purpose of a firm is to generate value for its owners, on the basis that the motivational and cognitive assumptions appear to be unrealistic. They argue for example, that entrepreneurs, like anyone else, can have a host of personal motives, and profit is just one of them. Further, they argue that the 'firm' of the theory has few of the characteristics

of actual business firms, having no complex organisation, no problems of control, no standard operating procedures, no budget, no controller, no aspiring 'middle management'" (p. 7).

Gavetti et al. (2012) argue that a theory of the firm, which was developed to answer aggregate outcome predictions, is not appropriate for developing process explanations and micro-predictions. This resulted in the call for research which 'opened up the black box' of the firm in order to accumulate theory and evidence on how a firm behaves as a result of lower-level processes, possibly involving individuals and groups.

Corporate governance, constructed on the basis of the (private sector) firm, has been transposed into the public sector through NPM, with organisations being created on a quasi-private sector basis, operating in quasi-markets. However, these sectors differ in purpose, culture, values and norms (Schraeder et al., 2005; Gordon, 1991). The primary purpose of the latter is to deliver government policy and services, particularly where the market is unable so to do. Similarly, corporate governance concepts have been transferred to the charity sector, which has the core purpose of altruistic delivery of services to those who fit within the charitable objectives of the organisation.

Notwithstanding this, these types of organisation have similarities in that they can be viewed as similar "behavioural entities" (Dosi and Marengo, 2007, pp. 492-493), with specific cultures. Valle (1999) argues that given the stereotypes about public leaders, and the constraints of the regulatory environment arising from NPM, it is difficult for them to respond to the need to change culture and to adapt to significant changes in the external environment.

3.7 Corporate Governance – Definitions and Theories

Corporate governance can be viewed as a set of theories, concerned with the internal systems and processes that provide direction and accountability to any organisation. Organisations are led by boards which are small groups of individuals, whose behaviour can be described by the

theory of social groups, and self-identity, as discussed in the previous chapter. Public services are also concerned with the relationship between policy makers and / or trustees of public organisations and the senior managers given the task of making these policies a reality (Cornforth, 2003a). However, Cornforth (2003b) notes that "the governance of nonprofit organisations is relatively under-theorised in comparison with the governance of business corporations" (p. 6).

The board, as a group, exercises authority over an enterprise and is therefore accountable for that enterprise. This phenomenon is found in equity corporations, NGOs, and many governmental organisations. Carver (2010) argues that governance is a social construct rather than a natural phenomenon, so theory must be driven by and anchored in the purpose of boards rather than derived from analyses of current practices. The literature review thus considers the key theories of corporate governance, which are rooted in the for-profit sector, and their relevance to nonprofit sector. The latter is not driven by the profit motive, and does not have a group of shareholders who have invested in the institutions for profit.

The definitions and views of corporate governance reflect the ideas of the primacy of ownership, control of organisational objectives and resources, and oversight. "In the private sector, corporate governance is the umbrella term for all aspects of the powers and competences in the relations among different organisational units and between the organisation and its various stakeholders, particularly its shareholders" (Amquist et al., 2013, p. 1). It is concerned with the regulation, supervision, or performance and conduct oversight of the corporation (Daily et al., 2003; Letza et al., 2008; Monks and Minow, 2004; OECD, 2015; van Kerksbergen et al., 2004). Corporate scandals over the years have focused the corporate governance debate on solving practical issues such as corporate fraud, the abuse of managerial power and social irresponsibility, through regulations and codes of good governance practice (Letza et al., 2004). In the UK these codes are Cadbury (1992), Greenbury (1995), Hempel (1998), Turnbull (1992)

– replaced by the FRC's Risk Guidance (2014), Higgs (2003), Walker (2009) and Kay (2012). However Cadbury (2002a) argues that what has been missing from governance initiatives is the essential building block of what boards are for, whom they should be serving, and what distinguishes governance from management.

Reflecting the point of multiple definitions, Judge (2009) called for a "parsimonious, generalisable, and accurate theory of corporate governance which can explain and predict corporate governance practices and outcomes throughout the global economy" (p. iii). Leighton and Thain (1997) claimed that it is "impossible to frame a statement of board system rules that would be universally valid" (p. 64). Cadbury (2002b) disagreed, stating that he recognised the possibility of a "fully integrated and coherent system of governance" (p. xiii). Summarising, Carver (2010) observed that "whether or not board governance theory is unattainable, there can be no doubt that it has been elusive" (p. 150).

3.8 Overview of Corporate Governance Theories

Overviews of: agency; shareholder and stakeholder; stewardship; institutional; resource dependence; and managerial hegemony theories are considered below. Issues common to behavioural theories are considered in the suceeding section.

3.8.1 Agency Theory

Agency is the dominant corporate governance perspective (Dalton et al., 1998; Shleifer and Vishny, 1997). It may have assumed that position initially through the work of Berle and Means (1932), who considered that corporations had assumed great economic and political importance, particularly in the USA as part of the industrial revolution. In that context, Berle and Means argued that "the separation of ownership from control produces a condition where the interests of the owner and of ultimate manager may, and often do diverge, and where many of the checks

which formerly operated to limit the use of power disappear. … [T]he corporation has changed the nature of profit-seeking enterprise" (p. 7).

Smith (1776/2005) highlighted the hazards of removing the control of the company's resources away from its owners by arguing that: "[t]he directors of such companies ... being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own" (p. 439).

The agency relationship occurs where one party (the principal) delegates work to another party (the agent). In the context of a corporation, the owners are the principal and the directors are the agent (Berle and Means, 1932; Blair, 1995; Jensen and Meckling, 1976). Agency theory is concerned with resolving the conflicting desires or goals of the principal and agent, and the difficulty or expense for the principal to verify what the agent is actually doing (Eisenhardt, 1989a).

Jensen and Meckling (1976) proposed agency theory to integrate elements from the theories of agency, property rights, and finance to develop a theory of the ownership structure of the firm. They argue that the problem of inducing an agent to behave as if they were maximising the principal's welfare is quite general and exists in all organisations. However, they explicitly restricted the scope of their paper to the analysis of agency costs generated by contractual arrangements between the owners and top management of the corporation. That is, they excluded nonprofits from their considerations. Nevertheless, the separation of decision and risk-bearing functions observed in large corporations is common to other organisations including nonprofits. This separation survives in part, because of the benefits of specialisation of management and risk bearing, but also because of an effective approach to controlling the

agency problem. In particular, organisations separate the ratification and monitoring of decisions from initiation and implementation of the decisions (Fama and Jensen, 1983).

One implication of agency theory is that boards have a responsibility to mitigate the risks inherent in the separation of ownership from management which arise from: managers not always acting in the interests of the organisation either because of self-seeking behaviour or incompetence; and the asymmetry of knowledge held by the management and the knowledge that is available to the representatives of the owners. The main role of the board is therefore to obtain the necessary information to monitor the performance of the company and to hold the managers to account (Chambers et al., 2013). The innovation of agency theory is to insist that relationships should be viewed as no more than a series of implicit and explicit contracts with their associated rights (Jensen and Meckling, 1976).

Agency theory has been criticised from a behavioural point of view by Tricker (1996), who argues that along with stewardship and stakeholder theory, it is culturally specific in that it is derived from Western thought, with its perceptions and expectations of the respective roles of individual, enterprise and state and of the relationships between them. Davis et al. (1997) also argue that agency theory downplays the complexity of individual motivations and permutations of organisational life, and that it relates to a contested view about the self-centredness of human behaviour in organisations. In summary, its assumptions are argued to be unrealistic (Cannella and Monroe, 1997; Davis and Greve, 1997), with little attention being paid to the collective values which underlie markets and enable the social choice of consent by the governed in corporate governance (Gomez and Korine, 2005).

Agency theory describes a relationship between those governing and the governed, but the consent of the latter cannot be satisfactorily explained without reference to the: theories of human nature, values and conformity, discussed in the previous chapter; justice (Rawls, 1971;

Soltan, 1987; Tyler, 1990); and collective value of procedural fairness which underlies markets (Lind and Tyler, 1988; Thibaut and Walker, 1975). It is collective values which ensure that institutions are compatible with individual freedom and support the constitution of modern (economic) society (Arrow, 1974; Charkham and Simpson, 1999; Rawls, 1971).

However, Hendry (2002) concluded that while most people are self-seeking to some extent, and managers are no exception, it is impossible for an organisation to function effectively without some measure of loyalty, honesty, cooperation, and trust between agents and principals. Agency theory is not invalidated because it ignores considerations such as power, complexity, bounded rationality, and the limited competence of managers, which are central to management and organisational life. However, these issues prompt a consideration of features of agency relationships other than those treated in the standard theory.

3.8.2 Shareholder and Stakeholder Theories

This section considers the shareholder and stakeholder theories together by discussing their common bases and differences; which seem to be polarised between: private property and social entity; contracts and communities; finance and politics, and shareholding and stakeholding (Friedman and Miles, 2002; O'Sullivan, 2000; Prabhaker, 1998); underpinned by conflicting and competing ideologies, cultures and value judgements (Letza et al., 2004).

(i) Shareholder Theory

In this theory, corporate governance has its ideological and theoretical origins in the belief in individual private ownership Letza (2004); with the two main models of shareholder-oriented governance: the principal-agent; and the myopic market model, sharing a common view that the corporation should serve the shareholders' interests only (Letza et al., 2008). Friedman (1970) argues that in a free-enterprise, private-property system, a corporate executive as an employee of the owners of the business, is their agent who has responsibility is to conduct the

business in accordance with the desires of the owner, while conforming to the basic rules, laws, and ethical customs of the society This clear shareholder ideological position is developed by Engelen (2002), who proposed three ideological legitimations for shareholder theory, based on claims of: prudentiality, which stresses the efficiency of shareholder control through liquid stock markets (Jensen, 2000; Shleifer and Vishny, 1997); functionality, which means that since shareholders provide risk-carrying capital and since all other claims on corporate earnings are covered by contracts, shareholders are rightfully rewarded with the residual earnings of the firm; and morality, based on the principle of reward according to contribution (Locke, 1700/1975).

(ii) Stakeholder Theory

This theory recognises the importance of the responsiveness of management to the well-being of stakeholders, who Freeman (1984) defines as "any group or individual who can affect or is affected by the achievement of the firm's objectives" (p. 25).

Letza et al. (2004) identified two main types of stakeholder theory to be:

- normative, which sees shareholders as investors rather than owners, but which believes that the public corporation should be conscious of its social obligations such as fairness, social justice and protection of employees; and
- instrumental, which holds that a corporation should serve multiple interests of stakeholders, rather than shareholder interest alone, in order to make the corporation more legitimate.

The central proposition of stakeholder model is that the firm which considers all its stakeholders is more equitable and more socially efficient than one confined to considering only the increase in shareholder wealth (Keasey et al., 1997).

Stakeholder theory can be viewed from the points of view of: sociology and ethics (Friedman and Miles, 2006; Phillips et al., 2005), and should thought of as being "explicitly and unabashedly moral" (Jones and Wicks, 1999, p. 206); and as a political position rather than as an economic theory (Chambers et al., 2013; O'Sullivan, 2000).

Stakeholder theory can be considered as a set of theories for the management of stakeholders (Donaldson and Preston, 1995; Heath and Norman, 2004) which include: an ontological theory which argues that the "purpose of the firm…is to serve as a vehicle for coordinating stakeholder interests'' (Evan and Freeman, 1988, p. 314); management behaviour; a deontic theory concerned with determining the legitimate interests and rights of various stakeholders; along with a regulatory aspect whereby the interests and rights of specific stakeholder groups ought to be protected by government regulation.

According to the stakeholder view, the strategic behaviour of an organisation should meet the needs of stakeholder groups in accordance with their respective importance; which Mitchell et al. (1997) argue is defined by power, legitimacy and urgency, of which power is the most important (Wartick, 1994).

According to Fassin (2008), the success of stakeholder theory is due in large part to the simplicity inherent to the model. However, the theory has been criticised for:

- vagueness and ambiguity, with debate about the model and theories around stakeholders (Donaldson and Preston, 1995; Gibson, 2000; Wolfe and Putler, 2002; Friedman and Miles, 2006);
- its inability to provide a sufficiently specific objective function for the corporation (Jensen, 2000);
- allowing management to use resources for other than increasing shareholder value (Von Hayek, 1985); or as just an excuse for management opportunism (Jensen, 2000; Marcoux, 2000; Sternberg, 2000).

- increasing diversity of, and lack of clarity about stakeholder expectations, complexity of trade-offs of stakeholder interests does make it difficult for managers to focus the business and its bottom line (Argenti, 1997).

The key challenges for stakeholder governance are the reconciliation of the competing claims of economic efficiency and those of social justice (Kelly et al., 1997) along with balancing a multitude of ethical and moral interests (Nwanji and Howell, 2007).

Stakeholder principles are however enshrined in guidance produced by the Hempel Committee (1998) which noted that good governance ensures that constituencies (stakeholders) with a relevant interest in the company's businesses are fully taken into account, but the director's relationship with the shareholders is different in kind from their relationship with the other stakeholders. The guidance states that if this were not so then there would be no clear yardstick for judging their performance.

3.8.3 Stewardship Theory

Stewardship theory challenges the belief that managers are always self-interested rational maximisers (Cornforth, 2003a; Davis et al., 1997; Donaldson, 1990b). While agency theory is a useful way of explaining relationships where the interests of the parties who are at odds, stewardship theory explains other types of human behaviour, which extend beyond economic considerations. In stewardship theory, pro-organisational and collectivist behaviours have a higher utility than self-interest. Stewards, when faced with competing stakeholders and shareholder objectives, are motivated to make decisions which they perceive to be in the best interests of the group. Stewardship is therefore differentiated from agency on psychological, situational and motivational grounds. The motivation in agency theory is extrinsic reward which forms the basis for the reward systems which represent its control mechanism. In stewardship theory, the focus is on intrinsic reward, including opportunities for growth,

achievement, affiliation and self-actualisation (Davis et al., 1997). The bases for this distinction can be found in theories of motivation (Alderfer, 1972; Maslow, 1970) and affiliation needs (McClelland, 1975; McGregor, 1966).

On psychological and situational grounds, stewardship reflects a more complex and humanistic model of man (Argyris, 1964; Likert, 1967; Maslow, 1943; McGregor, 1966). For example, when people are placed in organisations they are influenced by the prevailing culture to take decisions by themselves, which the organisation would like them to take (Argyris, 1973). Therefore, where the assumptions of agency theory predominate, people act according to its precepts, creating a self-fulfilling prophecy. This process is activated through the processes of: conformity; compliance; identification; and internalisation (Breckler et al., 2006; Kelman, 1958). Identification occurs when managers define themselves in terms of their membership of a particular organisation by accepting its mission, vision, and objectives (Davis et al., 1997). As discussed in the previous chapter; according to social identity theory, the self-concept comprises a personal and a social identity which encompasses salient group classifications. It is through this social identification that the individual perceives themselves as being psychologically entwined with the fate of the group (Hogg et al., 1995; Stets and Burke, 2000; Tajfel and Turner, 1979). Organisational identification is a specific form of social identification where the individual defines themself in terms of membership of a particular organisation (Mael and Ashford, 1992). Brown (1969) concluded that employees are tied to a work organisation, (as a self-defining group), because of the opportunities the organisation offers for satisfying achievement-related symbolic motives. The character of the tie is that of identification rather than satisfaction, dependence or compliance.

O'Reilly and Chatman, (1986) argue that the individual's psychological attachment to an organisation, that is, the individual's commitment, results from identification with the attitudes, values, or goals of the organisation. They also note a relationship between an individual's

commitment to an organisation and to positive manifestations of altruism, such as voluntary participation and contributions, beyond those narrowly required by the job. Therefore, according to Davis et al. (1997), managers who identify with their organisation are motivated to help it succeed and should be empowered to perform their jobs because this will enable them to use their initiative to promote the success of their organisation and their principles.

Critics of stewardship theory believe that there is, at best, mixed evidence to support this theory (Nicholson et al., 2007), and that its application can lay organisations open to risks of governance failure, strategic drift or inertia. In addition, there is a danger of 'groupthink' (Janis 1972) or 'upper echelons' dominated thinking, (Hambrick and Mason, 1984) in which there is insufficient independent challenge on the board.

3.8.4 Institutional Governance Theory

Carpenter et al. (2007) argue that "the institutional theory of governance should be viewed as a complement to agency theory rather than as a competing theory ... [and that this view] is consistent with economics based models of accounting choice which assume that individuals maximise their utility subject to certain rules and institutional settings" (p. 2). However, institutional theory de-emphasises the importance of individual self-interest motives, and assumes that institutional environments exert a potent conforming influence (Hoffman, 1999; Oliver, 1991). The theory sees organisations as operating within a nexus of norms, values, and taken for granted assumptions about what constitutes appropriate or acceptable economic behaviour (Oliver, 1997). Selznick (1957) believes that "the process of instilling value in an organisation, is to *infuse with value* [original emphasis] beyond the technical requirements of the task at hand" (p. 17), although he does not say how this occurs (Scott, 1987). Institutionalisation is rooted in conformity and producing common understandings about what is appropriate and, fundamentally what is meaningful behaviour (Zucker, 1983), which makes the arbitrary seem entirely natural (Bourdieu, 1977/2013); or as Berger and Luckman (1966)

state: "[s]ociety is a human product. Society is an objective reality. Man is a social product" (p. 61). Institutionalism can be seen as the "process by which individual actors transmit what is socially defined as real" (Zucker, 1977, p. 728). Mayer and Rowan (1977) enlarge upon this by arguing that this involves social processes which come to take on rule like status in social thought and action, whereby individuals come to accept a shared definition of social reality. This conception is seen as being independent of the actor's own views or actions but is taken for granted as defining the 'way things are' and / or the 'way things are to be done'.

Organisations conform to multiple institutionalised belief systems because they are rewarded for doing so with increased legitimacy, resources and survival capabilities (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). According to Scott (1987), institutions are based on the existence of a set of "differentiated and specialised cognitive and normative systems – institutional logic – and patterned human activities that arise and tend to persist, in varying forms and content, in all societies" (p. 500).

Carpenter et al. (2007) argued that "in general, institutional theory focuses on those factors or environmental pressures over which the individual organisational decision maker is powerless to resist in the long run, even if his own self-interest motives are opposed to the decision imposed by the institutional environment" (p. 10).

It was argued by Fiss (2008) that institutional theory is uniquely positioned to provide important contributions to corporate governance, by understanding it as containing implicit and explicitly normative theories or logics about the distribution of power and the 'natural' order of interests in the corporation. Power relations lie at the heart of corporate governance since institutions are inherently about the role of power (Stinchcombe, 1968), and always reflect political processes (Fiss, 2008). Conversely, efficiency-orientated approaches to corporate governance and law are limited in their ability to explain the politics of corporate control; and

that politics, like other social action, is embedded in social structures that influence collective action (Davis and Thompson, 1994).

3.8.5 Resource Dependence Theory

Resource dependence theory was originally developed to provide an alternative perspective to economic theories of mergers and board interlocks, and to understand the type of inter-organisational relations which played such a large role in market failure (Pfeffer, 2003). Davis and Cobb (2009) reflect that, for resource dependence theory, the motivation of those running the organisation is to ensure its survival and to enhance their own autonomy, while also maintaining stability in the organisation's exchange relations. The three core ideas of the theory are that: (1) social context matters; (2) organisations have strategies to enhance their autonomy and pursue interests; and (3) power (not just rationality or efficiency) is important for understanding internal and external actions of organisations. It is this emphasis on power which distinguishes resource dependence theory. The basic theory can be summarised by the advice of Davis and Cobb (2009) to top managers to "choose the least constraining device to govern relations with your exchange partners that will allow you to minimise uncertainty and dependency and maximise your autonomy" (p. 6).

In order to "understand the behaviour of an organisation you must understand the context of that behaviour, that is, the ecology of the organisation" (Pfeffer and Salancik, 1978, p. 1). While the theory is set squarely in the private sector, the issues of power, authority and leadership are applicable and more demanding in the nonprofit organisations. Anheier (2005) argues that "due to the important influence of values on organisational behaviour, management style and decision-making. … The importance of values in nonprofit organisations makes them intrinsically political institutions. Values do not exist in isolation, but are imprinted in organisational cultures, enacted through day-to-day activities, and evoked on special occasions and during decision-making. The link between values, power, and politics is critical, and values

form the basis of power" (p. 160). Carver (2001) observes, particularly in the context of conducting public business, that "[e]verything we do is a function of our values as they encounter various environmental conditions. … [which are] behavioural manifestations of the values that we bring to the existing circumstances. I may have little control over the environment, but my values are mine and are therefore subject to philosophical moulding and conscious intentions. Although the organisation embodies uncountable decisions, activities, goals, and circumstances, this mass of action occurs as the result of values held by persons at all levels" (p. 61).

An organisation will attempt "to create an environment that is better for its interest" and "may use political means to alter the conditions of the external economic environment" (Pfeffer and Salancik, 1978, pp. 189-190) by trying to shape government regulations. Traditionally, organisation theory has been dominated by the idea that change originates in the environment and the organisation, as an open system, constantly adapts to survive (Morgan, 2006). Resource dependence theory challenges this view that the environment is always the trigger and organisational change is always the response. According to the theory, organisations face environmental constraints in the form of external control over resources required for efficiency and survival and so must become interdependent with their environments. Anheier (2005) stated that organisations will "attempt to employ various strategies to manage dependencies and regain managerial freedom and autonomy. In the process the organisation influences and changes its environment as well" (p. 150).

Resource dependence theory views boards as co-optative mechanisms whose purposes are to extract resources vital to the company's performance, serve as a boundary spanning role, and enhance organisational legitimacy. The directors serving on the board are regarded as having prestige in their professions and communities, and thereby able to extract resources for successful company operations (Pfeffer, 1973; Zahra and Pearce, 1989). Also Provan (1980)

suggested the existence of a ‘powerful’ board of directors be defined in terms of prestige and external linkages will be effective in obtaining large amounts of funding. Pfeffer and Salancik (2003) suggest that managing external relationships in order to leverage influence and resources is the prime purpose of the board, and hence board members are selected for their background, contacts and skills in ‘boundary-spanning’. Rao and Sivakumar (1999) propose that one way of operationalising the necessary communication between the organisation and the environment is to focus on board interlocks, which connect and structurally embed the organisation in an intercorporate network. The theory asserts that firms depend on their environment and enact multiple strategies such as various inter-organisational relationships, boards of directors, corporate political action and executive succession, to manage these dependencies.

3.8.6 Managerial Hegemony Theory

Managerial hegemony theory is concerned with the issue of power on boards, which can be considered as class hegemony and managerial hegemony. Class hegemony exists when directors view themselves as an elite at the top of the company and recruit new directors according to how well new appointees are perceived to fit into that elite. Managerial hegemony is present where the management of the company, with its knowledge of the day-to-day operations, effectively dominates the directors and hence weakens the influence of the directors (Mace, 1971; Huse, 2007; Berle and Means, 1932). This means that: the holding and exercise of power on the board changes over time and power distance between board members can also vary; power on boards often rests with managers rather than with the outsider or non-executive directors or lay members; and board members add value by understanding the circumstances in which managerial hegemony is beneficial to the organisation and the circumstance in which it is not. (Chambers et al., 2013).

3.9 Behavioural Theories of Governance

This section reviews issues common to behavioural theories of corporate governance; that is, those theories which seek to describe what happens inside what is conventionally called the 'black box' of corporate governance (Dulewicz, 2010; Forbes and Milliken, 1999; Higgs and Dulewicz, 1998; Lockhart, 2006; Pettigrew, 1992; Pettigrew and McNulty, 1995). These theories implicitly recognise the difference between nature of governance as a function, and board as a complex structure within the 'black box' which is meant to deliver this function (Andersson and Edenfield, 2015).

This section first considers the black box in terms of the open system concept. A parallel is then drawn between the structure of nonprofit corporate governance and implied interactive hierarchical structure of the black box of general systems theory. This analogy raises the questions of where the boundary of the black box should be drawn, and how to understand its interactions with the environment. The issues of boardroom power and influence are then considered in that context. In particular, the behavioural interactions between individuals and groups are shown to affect the way in which corporate governance is enacted. Board group processes are then considered in the final part of this section. This then leads to consideration of a framework for considering the dynamics of the board in Section 3.10.

3.9.1 Black Box as Used in Corporate Governance Research

While the term 'black box' is often used rhetorically, in general systems theory it is defined as an open system, which interacts with the external environment, and can acquire qualitatively new properties through emergence (Ashby, 1956; von Bertalanffy, 1968). The environment of a system can consist of further systems, each interacting with their environments. The mutual interactions of the component systems 'glue' these components together into a whole. In this general principle of hierarchical structure, the highest level of the hierarchy encompasses a view of the whole, without seeing the details of the components or parts. At the lower levels,

one sees a multitude of interacting parts but without understanding how they are organised to form a whole. According to the reductionist view, the laws which govern the parts determine or cause the behaviour of the whole, that is, 'upward causation' from the lowest level to the higher ones. In emergent systems, however, the laws governing the whole also constrain or 'cause' the behaviour of the parts (Heylighten, 1998).

Public and quasi-public-sector governance can be viewed as a hierarchically organised set of systems. The highest level comprises the state and its governance, enclosing its sub-sectors, such as the public sector, within that the individual sub-sectors such as the NHS and social housing, within those sub-systems lie further embedded sub-systems comprising the specific organisations, and within those the 'black box' of the board. Within that board sub-system lies further embedded sub-systems. This section considers the board as the system and its parts as sub-system. The 'upward' interactions between the board and the regulatory and political domains within which it is situated are not considered in this section.

A question is then, where to draw the boundary of the sub-system and how to identify the mutual interactions between that sub-system and its environment. It is necessary to identify the sub-system or 'black box' of the board. This means that it is necessary to move outside the boardroom, to senior management and beyond, to understand the full board organisation, interactions and overlapping outer networks. The relationships between these groups should be examined through the analytical lens of power and politics, together with a more micro-process focus through studies of, for example, trusting, influencing and problem solving (Pye and Pettigrew, 2005). This requires the development of a dynamic and holistic view of the conduct and behaviour of a board. It is these interactions and behavioural processes among and between actors in and around the boardroom rather than on the performance of boards which is the focus of a behavioural theory of boards (Van Ees et al., 2009). The presence of complex group dynamics within formal and informal structures in the boards of directors means that

behavioural variables can actually provide better explanations than agency theory for board outcomes (Hambrick et al., 2008; Huse, 2005; Minichilli et al., 2009).

3.9.2 Boardroom Power and Influence

Behavioural theories are concerned with the reality of power and influence within the boardroom social group, and in the wider group networks; operating at the micro level, and relying upon social psychological theories, rather than just agency theory. These behavioural issues include for example: controversial or candid discussions seldom occurring in boardrooms (Hambrick et al., 2008); groupthink (Janis, 1972); undiscussability arising from group social prohibition (Argyris, 1985); pluralistic ignorance where which group members (plural) underestimate the degree to which others share their concerns (Merton, 1957; Miller and McFarland, 1987; O'Gorman, 1986; Suls and Green, 2003; Weick, 1996; Westphal and Bednar, 2005); and social distancing where less attention is paid to remarks and opinion of an outgroup member (Bogardus, 1959; Hillman and Dalziel, 2003; Moscovici and Doise, 1994; Williams and Sommer, 1997).

3.9.3 Board Group Processes

Much research has focused on: the role of the individual rather than the group dynamic (Pye, 2001; Dalton and Dalton, 2011); the contributions of the chair (Rechner and Dalton, 1991); non-executive directors (Pye and Camm, 2003); or CEO (Maitlis, 2004) to board work. However, research on groups emphasises the dynamic and combinatorial aspects of group behaviour, in particular: the importance of member participation (Huisman, 2001); group morale and consensus building (Jehn et al., 1999); the role of cognition at an individual and group level (Kilduff et al., 2000); board performance (Finkelstein et al., 1996; Hillman et al., 2008; Jehn, 1995; Pugliese et al., 2014); board effectiveness (Forbes and Milliken, 1999; Steiner, 1972); decision making (Zhu, 2013); and coalition formation which sterilises group dynamics through isolation of members (Cronin et al., 2011).

3.10 The Dynamics of the Board

Forbes and Milliken (1999) describe boards of directors as "large, elite and episodic decision-making groups that face complex tasks pertaining to strategic-issue processing" (p. 492). Nadler et al. (2004) emphasise the uniqueness of the board, the high degree of formality and social ritual which is used to reinforce the aura of power and privilege of the board, and the difficulty in building a cohesive team. Other studies have highlighted the importance of board composition, behaviour and culture in the development of an effective board (Chait et al., 1993; Herman and Heimovics, 1990).

This section reflects on these issues, by considering in the first instance the responsibilities of the board as an entity and its characteristics as a team. Membership of the board elite is then discussed, which leads to the issue of social control of boards. The inter-relationships between board groups are then considered through a review of the relationships between non-executive and executive directors, and of the critical role of management. These points then lead to Section 3.11, which discusses board culture.

3.10.1 Responsibilities and Characteristics of the Board

The organisation's board of directors is ultimately responsible for its business and affairs, and thus the responsibility for good governance rests with it. The board may delegate its decision-making authority to the organisation's top management team, but it is still responsible for running the organisation without micromanaging. It is well recognised that boards are different from executive and other teams in certain key respects. Leblanc (2004) identifies the key differences to be: the existence of 'outsiders', that is, non-executive directors, who have limited exposure to the organisation; a large membership, and relatively infrequent meetings. Steiner (1972) argues that these interactions may hinder the board as a group from achieving its full potential; board effectiveness depending on social-psychological processes such as group interaction, the exchange of information and critical discussion. Forbes and Milliken (1999)

proposed that social-psychological processes affect board performance through the exchange of information and critical discussion within the boardroom.

While the board cannot delegate its responsibilities, it may use board committees, (covering such areas as audit, internal control, risk, executive remuneration and management appointments, governance issues and corporate policies, nominations and selection of non-executive directors), to assist in its decision making. They also bring together non-executives and management, allowing detailed discussions on management matters while filtering out management matters, and so allowing a focus on strategic decisions required of the board (Armstrong, 2012).

3.10.2 The Board Elite

In order to understand why organisations do the things they do, or perform the way they do, it is necessary to understand: the experiences, abilities, values, social connections, aspirations, and other human features of the individuals at the top of the organisation (Finkelstein et al., 2009; Westphal and Zajac, 2013); and the behaviour of groups of these actors as they operate as boards of directors, executive committees or top management teams such as the SMT (Pettigrew, 1992).

Boards have traditionally been viewed as an homogenous elite group connected through social network ties, which provides access to its members to seats on boards (Domhoff, 2002; Mizruchi and Bey, 2005; Useem, 1984; Westphal and Milton, 2000). However, Hambrick and Mason (1984) argued that the strategic apex of firms contain more than individual leaders, and that it was necessary to pay more attention to top management teams (although the definition of a top team is often inconsistent and arbitrary) (Flatt, 1992).

The skilfulness of social influencing behaviour has potentially important consequences for organisations and society by affecting who rises to central positions in the corporate elite (Stern

and Westphal, 2010). This view of the micro-level social influence processes in corporate leadership and governance complements the traditional focus of organisation theorists on structural sources of power (Fiss, 2006; Fiss and Zajac, 2006; Kipnis and Schmidt, 1988; Wade et al., 1997; Westphal and Bednar, 2008; Westphal, 1998; Westphal and Stern, 2007).

3.10.3 Social Control in Boards

Boards can be viewed as a locus of social control processes whereby directors, through their service on boards, become socialised into the normative expectations and priorities of the corporate elite (Domhoff, 1970; Mills, 1956; Palmer et al., 1995; Palmer and Barber, 2001; Useem, 1982). However, socialisation processes alone are argued to be inadequate to ensure the social solidarity of large groups (Coleman, 1994; Hechter, 1987); and must be reinforced by social sanctions such as social distancing (Barkow, 1974; Bogardus, 1959; Merry, 1984; Wood, 1974) against group members who violate the collective interest.

Social control includes both 'negative' social sanctioning by directors of their fellow directors if they have acted against the board as a social group, and the 'positive' mentoring of fellow directors, by experienced and already socialised directors, about normatively appropriate ways to participate in board discussions (McDonald and Westphal, 2013). This social control also extends across groups within the organisation and the sector where corporate leaders socially distance themselves from peers who violate prevailing norms of director conduct (Westphal and Khanna, 2003). This process may play a critical role in perpetuating the interests, social integrity and a shared 'class-wide rationality' or group consciousness as members of a unified business elite (Palmer, 1983; Useem, 1982, 1984; Westphal and Khanna, 2003).

Thus, control in corporate governance is a social phenomenon. For example, directors exercise social sanctioning over other directors not because it serves their own personal economic or political personal interests; but because those directors violated normative expectations for

members of the corporate elite by failing to respect the autonomy of managers on another board (Westphal and Khanna, 2003).

Control is also sought and exercised through social processes such as ingratiating behaviour, which Jones (1964) defines as "an act of social deference or submission to another person" (p. 164), This includes opinion conformity, or verbal statements which validate an opinion held by another person, and flattery (Gordon, 1996; Jones, 1964; Tedeschi and Melburg, 1984; Westphal and Stern, 2006, 2007).

Social identification also plays a major role in the influencing. For example chief executives of large organisations socially identify with each other as fellow corporate leaders, and this mutual identification facilitates cooperative behaviour such as advice seeking and giving typically not associated with board interlock ties (Carpenter and Westphal, 2001; McDonald and Westphal, 2003; McDonald et al., 2008; Useem, 1984; Westphal, 1999; Zand, 1972).

3.10.4 Non-Executive – Executive Director Relationships

Early perspectives on CEO – director relationships drew primarily from agency theory. However, the mechanisms of social influence, helping behaviour, social learning mechanisms, and norms of reciprocity, have been argued to be important in the description of these relationships.

While non-executive directors are formally independent of management, there are powerful social and psychological factors in play which may compromise this view (Westphal, 1999). For example, a CEO may use personal influence over director selection to render boards passive and favour personal friends and other individuals with whom they share social ties (Johnson et al., 1993; Kimberley and Zajac, 1988). Furthermore, the appointment process itself may create social ties, since given the norm of reciprocity, non-executive directors may feel socially obliged to support CEOs who favoured their appointment (Johnson et al., 1993; Wade

et al., 1990). The norm of reciprocity links board composition to a variety of other policy and strategy outcomes that indicate a lack of independent board control over top management (Finkelstein et al., 2009). As a corollary, CEOs who were subjected to increased board control can retaliate by withdrawing their support for other CEOs of firms where they serve as non-executive directors (Westphal and Zajac, 1997).

Westphal (1999) argues that social ties between the CEO and the board provide the means for the CEO to receive and accept more advice and counsel from the board and so improve organisational performance. This differs from the dominant agency view that a lack of board social independence from management: reduces a board's contribution to strategic decision making through co-optation, or packing their boards with supporters (Herman, 1981; Mace, 1986; Wade, et al., 1990); and makes non-executive directors less vigilant in monitoring and exerting less control over top managers with whom they have close personal ties (Fredrickson et al., 1988; Spencer, 1983; Walsh and Seward, 1990).

In the for-profit sector, non-executive directors are the formal link between the shareholders of a firm and the managers entrusted with the day today functioning of the organisation (Forbes and Millikin, 1999), acting as boundary spanners between the organisation and its environment (Geletkanycz and Hambrick, 1997). While this role gives them a unique perspective on stakeholder management, is also likely to lead to conflict if expectations are not clearly defined within the governance mechanisms of the organisation (Aldrich and Herker, 1977; Floyd and Lane, 2000; Friedman and Podolny, 1992; Tushman and Scanlan, 1981).

3.10.5 Management

Senior managers and directors of large, established organisations who are members of this 'inner circle' are normatively expected to protect the interests of organisations, the autonomy and final decision-making authority of top managers themselves; and of the executives who

run them (Domhoff, 1970; Useem, 1982). While managers play a critical role in providing a moral framework for organisational members (Barnard, 1938; Grojean et al., 2004; Mendonca, 2001), they are constrained by organisational hierarchies, formal rules and rigid demarcations and disciplinary strategies. This means that their capacity "to act or make choices is not their intrinsic property but an effect of their relationship with the state in which they are both empowered and disciplined" (Clarke and Newman, 1997, p. 29).

Managers act in formal and informal groups or coalitions, the most powerful being designated as the 'dominant coalition', which is the social network having the greatest influence on the selection of an organisation's goals and strategies (Ansoff, 1983; Charan, 1991; Neilsen and Hayagreeva Rao, 1987; Pearce and David, 1983; Pearce and DeNisi, 1993; Pfeffer and Salancik, 1978). While not necessarily so, this is often synonymous with 'top management team' (Pearce, 1995). While membership of the coalition may change over time, its institutionalised nature is likely to support the status quo (Thompson, 1967; Pfeffer and Salancik, 1978). The dominance of the coalition is partially secured by its ability to institutionalise its power (Cyert and March, 1963; Pfeffer and Salancik, 1978). The influence exerted by the dominant coalition may take place through formal authority and informal communications (Ibarra, 1993; Ibarra and Andrews, 1993; Pearce and David, 1983; Tichy et al., 1979).

The real day-to-day control over the organisation lies, not with its senior management team, but more diffusely among the many middle ranking executives who have line responsibilities both to carry out the often abstract strategy announced at the top and provide the information flow from which future top-level strategic decisions derive (Hertig, 1998; Kärreman et al., 2006). This environment encourages the development of ethical plasticity, that is, a highly flexible, relativist and self-protective sense of right and wrong (Jackall, 1988). The recognition of this plasticity can be argued to be a key requirement for promotion, since many executive directors put their reputations at stake to implicitly vouch for the value of these middle and

upper middle managers. The directors encourage talented middle managers by fostering a sense of optimism about the organisation's prospects, which promotes trust, delayed gratification, and a host of other cooperative forms of behaviour by middle managers (Langevoort, 2000). This leads to the necessity to rethink strong assumptions of rationality in the context of individual behaviour. (Langevoort, 1997; Mitchell, 1999).

3.10.6 Summary of Board Dynamics

The responsibilities of the board for the governance of the organisation were discussed. While these responsibilities cannot be delegated, certain functions can be passed to board committees, typically in respect of audit, remuneration and nominations. While boards must legally comply with legislation and regulation, Van den Berghe and Levrau (2004) emphasise that corporate governance is about both "doing the right things" and "doing the things right" (p. 462).

Boards can be understood as elites, which according to Pettigrew (1992) goes beyond the individual position holder to that of the behaviour of groups of actors as they operate as boards of directors, executive committees or top management teams.

The ways in which boards operate were then considered, based on the view that boards are a locus of social control processes whereby directors, through their service on boards, become socialised into the normative expectations and priorities of a self-perpetuating corporate elite.

The major role played by social identification in this phenomenon was considered. This occurs both within the organisation, for example between the chief executive and non-executives, and identification with the organisation itself. The social ties between members of the board can significantly affect the independence of the non-executives and their role in holding the executive to account.

The internal structures of the black box of corporate governance were explored through the interplay of the formally constituted board with the senior management team and wider management groups. The day to day control of the organisation has been recognised as lying not so much with its senior management team, but more diffusely among the many middle ranking executives, who struggle for power within the cultural frameworks of the organisation.

3.11 Board Culture

Directors develop a specific boardroom culture through their relationships with each other (Leblanc and Gillies, 2005) which provides for: effective board functioning, with a balance trust and distrust (Nooteboom, 1996); closeness and distance, dependence and interdependence (Huse, 1994); and boardroom consensus and conflict. The cultural elements of commitment, creativity and criticality have been identified as the main predictors in board decision making (Huse, 2005; Huse et al., 2005). Forbes and Milliken (1999), also emphasised that group shared beliefs underpin key dynamic board processes.

This section considers the concepts of culture in relation to the ways in which boards function; and discusses: the nature and roles of norms and rules in governance; the moral bases and effects of motivation, generally; and their specific applications in the nonprofit sector.

3.11.1 Norms and Rules

Organisational actions are guided by both formal and informal rules (Gouldner, 1954; Jackall, 1988; March and Olsen, 1989; Weber, 1922/1978; Zhou, 1993). According to this view, rules of appropriate behaviour infuse all areas of organisational activity and lead to regularity and structure in organisations. The principal idea is that corporate boards of directors are guided in their decisions by both historical precedents and formal rules which are not easily modified. This because board actions become institutionalised, and norms of appropriate beliefs and behaviour become established (March and Olsen, 1989; Zucker, 1977).

In a corporate bureaucracy, the sources of control by corporate directors reside not so much in their economic or social capital but in the formal authority derived from their position (Ocasio, 1999). Formal rules thereby provide a legitimate basis for actions and decisions by boards of directors and allow for the reproduction of the legitimate basis of authority (Weber, 1922/1978). This formalisation also serves to objectify rules; that is, make the definitions of rules and objectives appear objective and external to organisational actors, and thus frame decisions (March, 1994; Zucker, 1977). Appropriateness of rules is shaped by both the legal fiduciary requirements (Clark, 1991) and the normative commitments which board members make to exercise the duties of loyalty, care, due diligence, and good business judgment, with their ultimate responsibility to "do the right thing" (Lorsch, 1989, p. 70). Thus, rules become infused with value, as symbols of the organisational mission and as embodiments of institutional purpose (Selznick, 1957), increasing social identification among the organisation's executives and its board of directors. This particularly affects the process of board challenge.

The style of governance appears to be significantly influenced by sub-sector cultures, historical practices, and the regulatory environment. The basic structure of the trustee board supported by officers persists. For example, in local government elected members work collectively as a non-executive council supported by professional civil servant bureaucrats (Cornforth and Chambers, 2010). However many non-executive councillors struggle with their role of holding their executive colleagues to account (The Audit Commission, 2003). In the NHS, non-executives had an impact on monitoring the executives, in a ‘control’ function, while attention to strategic issues, the ‘service’ function, faltered (ICSA, 2011). There is a similar situation in social housing where these issues are compounded by the power of the housing sector regulator (Brennan and Solomon, 2008; Malpass, 2000; McDermont, 2007). It is common to the nonprofit sector that board members often avoid a challenging style in formal board meetings because of their relationships with officers (Abbot et al., 2008).

Cairnes (2003) argues that good corporate governance results when board social dynamics, and the social system in which the board and management functions, interact effectively. These subtleties of human social systems have as much to do with director's personal and group awareness, relationship skills and capacity for taking responsibility and being personally accountable as it does with written rules and, procedures. Cohesiveness and esteem among the board members have been argued to be critical for effective board task performance (Forbes and Milliken, 1999; Huse et al., 2005).

3.11.2 Motivation Generally

The motivations of board members have been argued to have a significant influence on corporate governance. These motivations are now considered from the viewpoints of the theories relating to: (i) power, authority and influence; (ii) social identification, and (iii) personal motives.

(i) Power, Authority and Influence

The internal workings of a board are best understood through the attributes its members, its working style, and actual board task performance (Forbes and Milliken, 1999). These attributes, as with any other decision-making group, include the preparation and the use of knowledge and skills, effort norms, and cognitive conflicts. Further, the boardroom is often a place for the execution of power, with power games played out between various groups of board members (Pettigrew, 1992; Westphal and Milton, 2000). Boards can also be an arena where: the interests of an inner circle of business elites are addressed (Useem, 1984); and esteem is related to both power and the inclusion in an inner circle. Even though all board members have the same responsibility and are equally liable, often some groups of board members have higher esteem and power than other board members (Huse and Solberg, 2006; Huse et al., 2005).

The study of board roles should not be separated from that of power in institutions and society, or from studies of the composition and attributes of top management teams (Pettigrew, 1992). Chambers et al., (2013), argue that power on boards often rests with managers and not with the non-executive directors or lay members. According to this view, the reality of board power is best described by managerial hegemony theory; but subject to the context of various constraints and the latent power of stakeholders such as external board members (Cornforth and Chambers, 2010; Herman, 1981). From this perspective, the board becomes little more than a 'rubber stamp' for management's decisions and its function becomes essentially symbolic, giving legitimacy to managerial decisions. Cornforth and Chambers (2010) argue that the managerial hegemony theory also applies to public institutions, with the separation of the public or users of the service organisations from the professional managers. This leads to the conclusion that the largely voluntary and lay nature of board involvement in public sector may mean that board members power is even more limited than in the private sector (Peck, 1995; Steele and Parston, 2003). This view of limited non-executive power is challenged by a contingency approach to board power relations, which argues that power relations will be shaped by contextual, situational and personal variables (Pettigrew and McNulty, 1995, 1998; Zald, 1969).

(ii) Social Identification

As discussed in Chapter Two, at any point in time an individual is a collection of both conflicting and complementary identities which helps to explain their role in society and their attitudes towards the environment (Ashforth et al., 2008; Stryker, 1968). Social identity theory provides a basis for explaining an individual's actions and behaviour patterns, based on normative prescriptions relating to the social group to which the individual belongs (Ashforth, 2001; Callero, 1985). It has been suggested that this idea of multiple identities and identifications of directors is an important predictor of board behaviour and the motivation for

engagement in board tasks. (Dutton et al., 1994; Hambrick et al., 2008; Golden-Biddle and Rao, 1997).

The level of engagement of the board members in their tasks depends on their level of identification with the organisation (Golden–Biddle and Rao, 1997; Hillman et al., 2008). Dutton et al. (1994) define organisational identification as the "degree to which a member identifies himself or herself with the same attributes that he or she believes define the organisation" (p. 239). Organisational identity thereby influences how members define themselves, their interpretation of issues and roles, responses to problems, and feelings about outcomes (Albert and Whetten, 1985; Ashforth and Mael, 1989; Dutton and Dukerich, 1991; Dutton et al., 1994). It influences the construction and enactment of the directors' roles and determines when corporate control mechanisms such as board independence are less necessary or effective (Boivie et al., 2011; Golden–Biddle and Rao, 1997). It also makes it possible to understand how individual directors engage in boardroom activities, along with the effectiveness of the board as whole (Melkumov et al., 2015).

(iii) Personal Motives

Without an understanding of a director's motives, it is difficult to understand board processes or effectiveness. The motives of the CEO, are particularly important, which if unchecked by the board, have been consistently blamed for corporate excesses and failures (Hambrick et al., 2008). The key CEO's motives or traits in this respect are: self-esteem, - an individual's global evaluation of self-worth, (Baumeister et al., 1996; Brockner, 1988; Ganster and Schaubroeck, 1991; Harter, 1990; Rosenberg, 1965); overconfidence, - an overestimation of one's own abilities, performance, level of control and chance of success (Langer, 1975; Moore and Healy, 2008); and narcissism – which is manifested by a grossly inflated sense of self-importance and the tendency to overestimate personal achievements and capacities (Bollaert and Petit, 2010;

Freud, 1914; Judge et al., 1997) which if unchecked by the board, have been consistently blamed for corporate excesses and failures (Hambrick et al., 2008).

Self-esteem may also be viewed very positively and has been associated with various outcomes of non-executive functions such as the: successful handling of jobs with ambiguous roles (Jex and Elacqua, 1999); acceptance of change (Wanberg and Banas, 2000); motivation and organisational commitment (Hui and Lee, 2000); resistance to influence (Brockner, 1988); and policy experimentation (Knight and Nadel, 1986).

3.11.3 Motivation in Nonprofits

Volunteering can serve at least three purposes: sociability; altruism; and self-interest Nightingale (1973). It can also be regarded as serving the purposes of: personal well-being, community spirit and inclusiveness (Smith and Holmes, 2012; Thoits and Hewitt, 2001); individual and collective empowerment (Gooch, 2004; Nichols and Ralston, 2011); and the public good (Mangan, 2009). Keleman (2017) argues that volunteering is a complex term which is associated with a range of overlapping and inter-related motivations, which may be categorised as:

(i) altruistic, linked to ideas of selflessness and working towards the common good and collective ideals (Cieslik, 2015);

(ii) instrumental and forced (where the 'volunteer' is directed to do so), which are both linked to individualistic concepts such as personal betterment (Santore, 2008) or responsible citizenship (Marinetto, 2003); and

(iii) militant volunteering, which embraces collectivism in the sense that it resembles 'new social movements' (Bassel, 2014; Sklair, 1995).

The personal motivations which draw people to volunteer to serve as non-executive directors of nonprofit organisations include: empathy for a charitable cause, the prestige of association

with an elite organisation, the opportunity for humanitarian leadership, relationship with prominent people, and the importance of an organisation within a community. There is a perception that these motivations lead to nonprofit boards being too often ignorant of the business of the organisation, generally passive and uncritical recipients of reports by management, and conducting meetings in a state of non-contentious fellowship (Firstenberg, 2008).

Since nonprofit non-executive directors (trustees) are either not paid, or paid very little, for undertaking their duties, it is not unreasonable to assume that they carry out their roles for the reasons described above rather than for extrinsic pecuniary motives. This section considers the concept of intrinsic motivations, such as moral obligation and altruism, felt by trustees to support the ultimate beneficiary of the nonprofit organisation. The argument concerning the ethical concept of moral obligation leads to the observation that the for-profit culture underlying corporate governance does not adequately describe it in the nonprofit context.

Moral obligation in the nonprofit sector can be viewed as the intrinsic motivation to act to the benefit of the recipients of the services provided by the organisation. This morally based conduct, which is also used interchangeably as ethics, can be more widely understood as a study of human moral conduct or the rules of conduct recognised as appropriate to a particular profession or area of life. As discussed in Chapter Four below, it relates to moral principles or conscience (Nwanji, 2016), and moral philosophers orient themselves within the virtue, teleological or deontological schools of thought (Harris, 2010b). Nwanji (2016) notes in a discussion on corporate governance in the private sector that "deontological (or duty based) ethics and teleological (or utilitarian) ethics are general perspectives which can help to explain the moral behaviours of those responsible for managing the affairs of an organisation" (p. 48). However, in the nonprofit sector, as Hursthouse (2013) argues, the virtue ethic of "helping the person would be charitable or benevolent" (p. 1) would seem more appropriate. Kant

(1785/2000) provided a deontological position when he argued that duty and obligation should bind humanity. Moral duties are categorical because they should be followed simply because they are duties and for no other reason. It is thus the action itself which is the object of moral evaluation (Kant, 1781, 1785, 1790, Donagan, 1977; Davis, 1980). The Kantean deontological ethical approach argues that we should, as Burns (2000) states, "impose on ourselves the demand that all our actions should be rational in form" (p. 28).

While it can be argued that non-executive directors in the private sector are mainly extrinsically motivated, those in the nonprofit are primarily intrinsically motivated. This intrinsic motivation can be explained by virtue ethics, teleologically, principally through altruism or deontologically as a sense of moral duty. Thus, the extrinsic motivational culture of the for-profit sector does not seem an appropriate model for the intrinsically motivated nonprofit sector. The theoretical route for this overlay is considered in Chapter Four in terms of new historical institutionalism and path dependence.

This leads to the issue of motivation in nonprofit organisations where there is a clear distinction between: the board, whose members are trustees of the social purpose of the organisation; and the senior management. The motivations of these two groups play an important role in nonprofit governance where non-executives are primarily generally intrinsically motivated, and the executive motivated both extrinsically and intrinsically. The assumption that executive directors are only extrinsically motivated is challenged by the view that they tend to be attracted to (and retained in) industries and organisations that fit with their dispositions (Gupta and Govindarajan, 1984; Finkelstein and Hambrick, 1996). That is, they are also intrinsically motivated, since the activities of the public sector or nonprofit organisations coalesce around a 'mission' (Besley and Ghatak, 2005).

3.11.4 Summary of Board Culture

The board provides the moral framework of values and standards within the organisation through its decisions regarding strategy, incentives, and internal control systems. The board's legitimacy is closely related to a set of broad, societal, normative judgments and values, promulgated by institutional sources such as the state and the professions. This provides a distinctive culture within the nonprofit sector, based in the regulatory environment created through NPM, and societal expectations of board member behaviour as exemplified by the Nolan Principles.

Formal and informal rules pervade all forms of decision making by boards of directors. They frame decisions which are appropriate, shaped by both: the legal fiduciary requirements; and the normative commitments which board members make to exercise the duties of loyalty, care, due diligence, and good business judgment, with their ultimate responsibility to "do the right thing". Thus, rules become infused with value, as symbols of the organisational mission and as embodiments of institutional purpose, increasing social identification among the organisation's executives and its board of directors.

It is argued that good corporate governance results from the effective interaction of the board and management, which has as much to do with director's personal and group awareness, relationship skills and capacity for taking responsibility and being personally accountable as it does with written rules and procedures.

The internal workings of a board can be understood through the attributes its members, its working style, and actual board task performance. However, these should not be separated from studies of power in institutions and society, since the boardroom is often a place for the execution of power, with power games played out between various groups of board members in the interests of an inner circle of business elites.

Board and management behaviour is shaped through social identification, which can explain how an individual's actions and behaviour patterns, come to be based on normative prescriptions relating to the social group to which the individual belongs. This provides the motivational base for the effectiveness of the board as a whole, and engagement of individual non-executives and executive directors in board tasks.

The intrinsic motivations of executive and non-executive directors in the nonprofit sectors coalesce around a 'mission'. The personal motivations which draw people to serve as directors of nonprofit organisations centre on this concept.

3.12 Behavioural Theories Conclusions

Leighton and Thain (1997) liken a board of directors to a 'black box', whose "internal workings can only be surmised from public information about decisions announced and actions taken" (p. xv). Sections 3.9 to 3.11 dealt with the behavioural issues associated with the board and applied them to the higher order hierarchies associated specifically with the highly regulated nonprofit environment, which includes the issues of regulation, quasi-markets, public accountability, and legally defined governance structures. The culture and motivation within this sector is characterised by its: purpose of distributing value rather value creation; operation within a public regulatory framework; and generally non-financial personal motivations.

The scope of the 'black box' is proposed to include: the formally constituted board; and the senior management team, with its links to the management outside that senior team. These components were considered through the lens of group and individual motivations such as power and influence, identification and socialisation.

Emphasis was placed on the behaviours of board elites as individuals and as groups operating on boards or senior management teams, who share a "class-wide rationality" or group consciousness as members of a unified business elite (Palmer, 1983; Useem, 1982, 1984).

This led onto the idea of social control of boards, and particularly of board members by the chief executive, and other struggles for power which challenge the assumptions of agency theory. The dynamics of power and influence, collaboration and control, which are core to theories of behavioural governance, can properly be explored through an in-depth qualitative approach involving the direct study of boards and contact with corporate directors (Gillies and Morra, 1997; Roberts et al., 2005).

The culture of boards was then discussed in the context of the relationships which its members have with each other, and the group shared beliefs which underpin key dynamic board processes. Motivation relating to power and influence, social identification, and personal traits, has been argued to have a significant influence in corporate governance. The financial compensation characteristic of the private sector is generally not present in the nonprofit sector. Therefore, specific consideration was given to the motivation which are emphasised in the nonprofit sector such as an empathy for a charitable cause, the prestige of association with an elite organisation, the opportunity for humanitarian leadership, relationship with prominent people, and the importance of an organisation within a community. The nonprofit environment is characterised by the social purpose of the nonprofit organisation, public funding, regulatory control or oversight, and the operation of quasi-markets implemented through NPM. This significantly affects the motivation of the non-executive board in undertaking their assigned roles.

The study of corporate governance at this 'micro-level' is then based upon the ways in which 'elite' individuals and groups interact between themselves and the environment. The behavioural motivational characteristics of groups, appears to be a major cause of the conflicting and ambiguous results in empirical studies based on agency theory. This has led to calls for new directions and alternative theorising in research on boards and corporate governance (Daily, Dalton and Cannella, 2003; Davis, 2005; Gabrielsson and Huse, 2004;

Hambrick et al., 2008). Alternative studies have focused on behavioural processes and dynamics in and around the boardroom (Forbes and Milliken, 1999; Huse, 1998, 2005; Leblanc and Schwartz, 2007; McNulty and Pettigrew, 1999; Westphal, 1999; Westphal et al., 2001; Zajac and Westphal, 1998). Thus, theoretical progress will depend upon greater attention being paid to the inner workings of boards (Hermalin and Weisbach, 2003; Pettigrew, 1992), which seek to articulate the multiple meanings of corporate governance rules, techniques, and processes as they arise in practice; and recognise the multiple meanings of practice in both local detail and wider contexts (Ahrens and Kalifa, 2013). Pugliese and Bezemer, (2015) contend that since boards can only legally execute their power as a group, understanding board-room interactions and director participation is fundamental to effective governance. This can only be achieved by entering the boardroom and studying director interactions, which will highlight that this process is measurable, multidimensional and dynamic.

3.13 Chapter Summary

The various definitions and forms of governance were summarised by Lee (2003) as ways of defining rights and responsibilities of members who face certain common problems, public or private, and want to resolve them jointly, and by Pierre (2000) as social co-ordination.

There is a clear distinction between government and governance in the literature, with the latter being concerned with forms of power and authority, patterns of relations and obligations (Lee, 2003). While government is just one source of power, it is responsible for the public sector, and the development of NPM corresponds to the neoliberal viewpoint of 'less government and more governance'. That is, "organisations that get things done will no longer be hierarchical pyramids with most of the real control at the top. … Because organisations will be horizontal, the way they are governed is likely to be more collegial, consensual, and consultative. The bigger the problems to be tackled, the more real power is diffused and the larger the number of persons who can exercise it - if they work at it" (Cleveland, 1972, p. 13).

The concept of NPM redefined the public and quasi-public sectors by bringing in private sector values and methods. This process can be seen to unite the governance processes in these sectors through the concept of producing benefits for the ownership of the organisations.

The social contract sees the state as a construction of the general public because real people 'will it' to exist. Thus, the nature of public organisations can be enlightened by social contract philosophy, to as broad a portfolio as the public wishes. Therefore, as Carver (2001) argued, for nonprofit organisations, the relationship of the public to the public organisation is one of ownership in that both the state and the public organisation are creatures of the public and wholly subject to its dominion. For nonprofit organisations of a more quasi-public nature, ownership may be more akin to the 'moral' ownership of social contract than it is to a legal kind of ownership.

From a private sector perspective, Carver (2007) argued that "corporate governance exists for one reason and one reason alone: to ensure that shareholders' values… are transformed into company performance" (p. 1030). However, the diverse nonprofit sector has different purposes, motivations and cultures to that of the equally diverse private sector. Chambers et al. (2013) conclude that nonprofit boards differ from those in the private sector in that their core purpose is social performance (public value) as well as financial performance. They observed that, in addition, public boards may suffer from a pressure to conform to the social norms associated with the NPM practice; copying governance structures, rituals and procedures from the private sector without regard for their fitness for purpose for the public sector. However, in contrast to private sector boards, their accountabilities may be blurred as a result of the influence of political patronage and the subversion of formal authority, and there is relatively little involvement in the setting of strategy as opposed to the endorsement of strategy.

This and the preceding chapters have identified the underlying issues of individual and group motivations in corporate governance, including the issue of direct, indirect, conscience-controlling and institutional values. The importance of considering motivation and behaviour in corporate governance is reflected by Jensen and Meckling (1994), who stated that "understanding human behaviour is fundamental to understanding how organisations function, whether they are profit-making firms in the private sector, nonprofit enterprises, or government agencies intended to serve the 'public interest'. Much policy disagreement among managers, scientists, policy makers, and citizens arises from substantial, though usually implicit, differences in the way we think about human nature - about the strengths, frailties, intelligence, ignorance, honesty, selfishness, generosity, and altruism of individuals. … They care about not only money, but about almost everything—respect, honour, power, love, and the welfare of others." (p. 4).

Research based on the agency theory perspective of corporate governance has produced conflicting and ambiguous results; which has led to calls for alternative theorising on boards and corporate governance (Daily et al., 2003; Davis, 2005; Gabrielsson and Huse, 2004; Hambrick et al., 2008). Daily et al., (2003) called for "fortresses in research about boards and governance to be dismantled" (p. 378); and Gabrielsson and Huse, (2004) argued the need to devote more attention to the internal organisation of the board, such as relationships, motivations, and abilities among various kinds of directors, which in turn, could influence board and firm level outcomes.

The cumulative effect of research into boards provides a compelling critique of the shareholder value approach, in which directors are dutiful agents of their shareholder principals disciplined by the operations of a market for corporate directors. Davis (2005) observes that "boards of directors in practice look little like the antiseptic monitoring devices contemplated by theorists, and are indeed very much social institutions" (p. 151).

Both agency and stewardship theory, (along with other theories of corporate governance) have been criticised for only illuminating particular aspects of corporate governance and board roles. As a result there have been calls for frameworks that combine the insights of different theories (Cornforth, 2003; Hung, 1998; Tricker, 2000).

After reviewing the main theories, this Chapter then considered behavioural aspects of corporate governance: which focussed on issues of motivations, power, and interactions. The requirement to 'study the board from the inside' is emphasised. Various studies have been carried out to more closely study behavioural processes and dynamics in and around the boardroom to better understand conditions for effective corporate governance. These include: perceptions of the effectiveness of board chair leadership (Harrison et al., 2012); stakeholder relations, (Huse, 1998); CEO-board power and director interlocks, (Zajac and Westphal, 1996); boards as strategic decision making groups (Forbes and Milliken, 1999); the contribution to strategy made by chairmen and non-executives, (McNulty and Pettigrew, 1999); behaviour and performance, (Westphal, 1999); the effects of board network ties, (Westphal, et al., 2001); accountability (Huse, 2005); and gaining access to the black box which is the board, (Leblanc and Schwartz, 2007).

The approach to data collection, described in Chapters Five and Six below, is predicated on the belief that: theoretical progress will depend upon greater attention being paid to the inner workings of boards (Hermalin and Weisbach, 2003; Pettigrew, 1992); and that this can best be achieved by entering the boardroom and studying director interactions directly (Gillies and Morra, 1997; Roberts et al., 2005).

Chapter Four now discusses the theoretical bases of the board behaviours discussed, in terms of rationality used within the nonprofit sector, institutions, and the application of dialectics and path dependency in the formation and operation of the sector.

CHAPTER 4: Rationality, Historical Institutionalism, Contradiction, and Path Dependency

The literature review identified the importance of context and motivation as issues for corporate governance. This chapter therefore considers the concepts of rationality as a basis for morality and motivation. It then discusses the theoretical bases for the way in which corporate governance in UK nonprofit sector was created from the 'for-profit' sector, through a consideration of: historical institutionalism; followed by an outline of the dialectical approach as the creative engine of change; which is expressed through path dependency.

The concept of rationality has been so deeply embedded in western culture that to call something irrational is regarded as an insult. Section One provides a critique of 'rationality' which will serve to bind together the substantive theory of corporate governance for nonprofits based on moral and ethical values and beliefs.

Section Two considers new institutionalism, with a focus on sociological institutionalism. The nature, production and reproduction of institutions as social constructed entities are discussed. The ways in which they cause and are themselves changed by behaviours are central to the theoretical view posited. There is an emphasis on cultural specificity of the nonprofit sector, which provides a means to better understand the ways in which ideas, values and beliefs affect institutional change in that sector.

The dialectical mode of thought is then considered in Section Three and proposed as a driver for the transmission of corporate governance into the nonprofit sector. The ways in which this change is enacted, is described through path dependent mechanisms in Section Four.

4.1 Rationality

This section considers the questions of what constitutes 'reason' and 'rationality', and how they support moral concepts. The nature of reason is considered first, which leads onto

considerations of the various interpretations of meanings and types of rationality: purpose, subject, meaning and rationale (Abulof, 2015). The inter-relationships between emotion, power and morality are then discussed. The discussion on rationality is then summarised by the view of the social construction of reality which is heavily influenced by: history; context; ideology; conceptions of human nature; emotions; and power.

4.1.1 Reason

Sibley (1953) suggests that for some philosophers, 'reason' is a principle which demands a utilitarian attitude from its moral agents in matters of conduct. The 'rational' person is thus one who will act to 'maximise values'. In this sense the meaning of 'rational' as applied to conduct should be split between *ends* and *means*. The *ends* entail: (a) an informed awareness of the nature of the *ends* which are proposed to be achieved, including an awareness of their significance as they affect other *ends*, not only of the actor, but also of others affected by actions of the actor; and (b) an informed ranking, which judges which of the *ends* is of more value to the reasoner than its competitor. The *means* to those rationally chosen proposed *ends* are those which are selected because, on the best available evidence, they are the most effective way of realising those *ends,* taking into account all other measures lying within the reasoner's power necessary to safeguard the attainment of those *ends*.

Others such as Kant, view 'reason' as a principle of formal equity, such as the categorical imperative. The Kantian account of reason provides an option, which O'Neill (2000) describes as reason being embedded within complex traditions. That is, rationality is what a given tradition or community takes it to consist in. Williams (2016) argues that Kant characterises reason in terms of a self-reflexive procedure, where it is autonomous, submits to no external authority, and gains authority from submitting itself to critique. Reason assumes a universal position and therefore rejects any mode of thinking or acting that cannot be adopted by all.

4.1.2 Rationality

Rationality is the quality or state of being reasonable, based on facts or reason (Websters dictionary), which implies conformity between belief and the reasons to believe, or of the actions for the reasons for those actions. Belief and reason are thereby intimately interconnected. In common usage however, the cultural concept of a 'reasonable person', who strictly speaking, is a person who has the ability to reason, is commonly used to refer to a person who is sensible and has sound judgement, and an unreasonable person is one who makes irrational or poor judgements.

All rationalisation processes have the aim of ordering perceptions into comprehensible and meaningful regularities which can be translated into patterns of social action, and rationality itself is the attempt to consciously master fragmented realities through regularities of action. Weber (1922/1978) identified four components of rationality to be: 'practical', 'theoretical', 'substantive', and 'formal, which are discussed below.

Weber (1904/1958) designates every way of life which views and judges worldly activity in relation to the individual's purely pragmatic and egoistic interests as 'practical rational'. This represents the capacity for means-end rational action, which accepts given realities and calculates the most expedient means of dealing with the difficulties they present by careful weighing and increasingly precise calculation of the most adequate means (Weber, 1919/1946). Theoretical rationality involves the construction of increasingly precise abstract concepts rather than through action, which seeks to give a coherent meaning for the random events of everyday life. Kalberg (1980) observes that, "even though theoretical rationality masters reality through thought, it contains a potential indirectly to introduce patterns of action." (p. 1152). Substantive rationality directly orders action into patterns, in relation to a past, present, or potential 'value postulate' (Weber, 1922/1978), and is a manifestation of man's inherent capacity for action based on 'rational' values. Weber regarded only value rational and means-end social actions as

rational. The value rational sub-ordinates realities to values, and means-end rationality is based on means-end calculations and represents a formal or practical rationality based on specific interests. Formal rationality is similarly concerned with means-ends calculation but based on rules, laws and regulations. Substantive rationality sub-ordinates reality to values.

Weber (1904/1958) proposes that the existence of a rationalisation process depends on an individual's implied or stated, unconscious or conscious, preference for certain ultimate values and the systematisation of action to conform to these values. In this view there is no absolute standard for the rational and for rationalisation processes. Values acquire 'rationality' from their status as consistent value postulates. Therefore, as Weber (1904/1958) argues, nothing is intrinsically irrational, but results from the incompatibility of one set of values with another. "Something is not of itself 'irrational', but rather becomes so when examined from a specific 'rational' standpoint." (p. 53).

Abulof (2015) argued that rationality could be categorised under headings which include: purpose; meaning; and motivation, which are now considered.

(i) Purpose

The three purposes of rationality are to: describe or explain; prescribe what is regarded as rational; and provide a 'subjunctive rationality', which represents the position where people acted 'as-if' they were goal directed. Satz and Ferejohn (1994) argue that in subjunctive rationality "all formal rationality entails is that an agent's action is explicable as if she is maximising preferences. ... Saying that people act consistently is not to say why they act. … But it is to say that some of their actions can be described as if they had reasons, as if their behaviour was goal-directed" (p. 75). However, Elster (2007) argues that "'as-if' explanations do not actually explain anything" (p. 25).

(ii) Meaning

Abulof (2015) proposes the meaning of rationality to relate to both: *how* decisions are made, that is, to the quality of the cognitive decision-making process; and to *why* certain decisions are made. The *how* process can range from: some purposeful behaviour relating to means to ends within a given context, as in bounded rationality; to a full, rationality based perfect choice, linear sequence of carefully formulating goals, complete information, full knowledge of consequences and probabilities, and finally ranking them to maximise expected-utility. The *why* question centres on motivation, which extends as a continuum between instrumental and substantive rationality.

(iii) Motivation

Quackenbush (2004) argued that instrumental rationality is only concerned when "people act in accordance with their motivations, regardless of what those motivations may be" (p. 94). Substantive rationality presumes material self-interest and utilitarian power-seeking as the main, if not sole, human reasoning, sidestepping faith, ideology, and morality (Johnson, 1996; Kacelnik, 2006). Rational choice theory generally subscribes to instrumental rather than substantive rationality (Elster, 2007). However, Gintis (2009) argues that rationality "requires only preference consistency" (p. 1), and can thus readily accommodate social and moral motivations. Kalberg (1980) argues that, only action aligned to substantive rationality can overcome the practical rational way of life based on interests, the formal rational orientation to rules, and reality's stream of disjointed occurrences. This can occur, he argues, most effectively after the values of a given substantive rationality have been rationalised through theoretical rationalisation processes.

4.1.3 Ethical Rationality

In the substantive view, belief, where ethical values are arranged to explain the ‘meaning of existence’, stands opposed to science, or calculation, where values are excluded from theoretical rationalisation processes. Ethical rationality is situated within this former category, which implies conformity to an internally binding or obligatory moral good. Importantly, only substantive rationalities place ‘psychological premiums’ on ethical action in the world (Kalberg 1980).

Weber (1922/1978) defines an ethical standard as a type of value-rational belief among individuals which imposes a normative element upon human action that claims the quality of the 'morally good' to be the same as the aesthetic concept of beauty. This ethical rationality implies an imperative for conformity to a moral good which is felt to be internally binding or obligatory, regardless of, or in spite of, any external social forces. The individual who values rationally, orients his action to an internally unified and comprehensive ethical substantive rationality, acts methodically with reference to an ethic of conviction and rationalises action ‘from within’ in all spheres of life to conform to its internally binding values (Weber, 1922/1978, 1915/1951, 1919/1946). However, the formal rationalisation processes in the economic and the legal spheres and in the bureaucratic form of domination have come together to form a network of patterns of action which suppress value-oriented action (Weber, 1922/1978, 1927).

Habermas (1987) argues that Weber's theory of rationalisation is flawed because it is based in the “methodical-rational lifestyle peculiar to the Occident” (p. 294), and specifically in the context of the development of the capitalist economy. In this economy, money is used as the rational yardstick for legitimating social action, even in cases where money cannot measure adequately the realities of societal functions (Marcuse, 1968). Further, Habermas (1985) argued for a communicative rationality based on a non-coercive, unifying, consensus-building

discourse in which the participants overcome their subjectively based views in favour of a rationally motivated agreement. This presumes a more complex concept of rationality than provided by the Weberian rationalisation of action systems, emphasising the importance of culture on rationality (Habermas, 1987).

4.1.4 Rationality and Emotion

The ends-means view of an 'emotionless' rationality is criticised. The emotional basis of rational choice theory is then discussed, and the argument made that emotion is not synonymous with irrationality, but rationality is dependent upon emotion, and emotion is necessary for rationality.

Sibley (1953) argues that the ends-means view of rationality presumes the additional component of the *will*. An act of *will* entails acting in accordance with the decisions reached by a process of reflection, which does not allow for any emotional influences. To fail in this respect is to be irrational, in the sense of being foolish, absurd, or unintelligent. This means a good rationale must be independent of emotions, personal feelings or any kind of instincts, and for the process of evaluation or analysis, to be called rational, should be highly objective, logical and 'mechanical'. Therefore, if a person has been, even slightly, influenced by emotions, feelings, instincts, or culturally specific moral codes and norms, the analysis may be termed irrational. It seems inconceivable that any human has ever met these stringent requirements.

Rationality is thus more than mere calculation and is intimately connected with meaning, emotion, belief and cognition. In the sense that emotion is synonymous with passion, Hume (1739/2007) argues that "a passion must be accompany'd [sic] with some false judgment, in order to its being unreasonable; and even then 'tis not the passion, properly speaking, which is unreasonable, but the judgment" (p. 217). Camus (1942) argued that he could understand 'meaning' only in human terms, and of the impossibility of reducing this world to a rational

and reasonable principle. He further observed that all that can be said is that the world, in itself is not reasonable.

Landsbergen et al. (1992) identified the internal and external rationality models in the context of rational decision making. The focus on the individual as rational decision maker is based on the assumption of 'external rationality' which maximises decision utility in light of constraints imposed on resources, information, or time, expected utility, marginal cost-benefit, and various optimisation criteria (von Neumann and Morgenstern, 1947; Raiffa and Schlaifer 1961). The external rationality assumes "a standard rationality, one not imposed by the individual decision maker" (Landsbergen et al., 1992, p. 248). Internal rationality approaches focus on decision criteria and processes imposed by the individual through rational processes, habit, or impulse rather than on the externally-imposed standard of the external rationality model. Landsbergen et al. (1992) further argue that internal and external rationality are complementary approaches to understanding decision making, the external approaches are useful for developing normative approaches and techniques to aid decision making, and internal approaches provide explanations of actual decision making. Nussbaum (2001) argues that "[e]motions are not just the fuel that powers the psychological mechanism of a reasoning creature, they are parts, highly complex and messy parts, of this creature's reasoning itself" (p. 4), and further, that we will have to consider emotions as part and parcel of the system of ethical reasoning (ibid). Thus, according to Greenspan (1988, 2000), emotions play an important role both in determining and in undermining rational thought and action, particularly in a social context.

Mercer (2010) argues that "emotion and cognition meet in beliefs and that this rendezvous is necessary for rationality" (p. 25). Thus, rationality is dependent upon emotion, and emotion is necessary for rationality (Damasio, 1994; Harris et al., 2008; Verdejo-Garcia et al., 2006).

Mercer (2010) further argues that an "*emotion* is a subjective experience of some diffuse physiological change, whereas a *feeling* is a conscious awareness that one is experiencing an emotion" (p. 3) (emphasis in the original). A belief is a proposition, or collection of propositions; which presupposes uncertainty (Becker, 1996; Calhoun, 2004). Elster (1999) argued that "[e]motions may affect beliefs and through them, emotions, and through them, behaviour. … Emotions may affect emotions and through them, beliefs and through them, emotions and through them, behaviour" (p. 330). Further, emotions influence how people feel, what they want and what they believe (Mercer, 2010). So, 'utility' in decision making is something which is experienced, rather than being something which is considered before a choice is made (Kahneman and Tversky, 1983; Kahneman, and Krueger, 2006).

This view implies socially constructed realities in which emotions play an important role both in determining and in undermining rational thought and action (Greenspan, 1988, 2000). In these realities: all the assumptions of rational choice are shown to affected by emotional attitudes, and the order of preference can be inverted (Ainslie, 1992); incorrect estimates of what our future emotions and preferences will be made (Gilbert, 2006); and partial assessments of the past will be made, where all but the highs of unpleasantness or pleasure are ignored (Kahneman, 2000). Judgments of reasonableness, which are central to the concept of rationality, can be similarly endorsed or rejected in accordance with an individual's ideological commitments to a particular conception of human nature. Further, reality is complicated by the fact that some apparent irrationalities may serve group cohesion (Oosterbeek et al., 2004).

Thus, the view of objective judgements which depend only upon objective facts, independent of human nature, is argued to be flawed. Beliefs, expectations or theories influence interpretations of evidence (Jervis, 1976). Emotion and emotional beliefs thereby can be viewed as something which affects decision making through altering our view of the world. Although the term 'emotional belief' is often taken as a synonym for irrational beliefs, which

undermines rationality; Mercer (2010) argues that emotion and emotional beliefs are not irrational, but rather that emotion is important to rationality. He argues that, for example, justice can be viewed as an emotional belief which means that someone who is troubled by injustice may expend effort to understand the sources of that injustice or act to alleviate it. Without the emotion there would be no concern and no reason to expend effort on the problem. Beliefs about injustice cannot be understood or analysed independently of how one feels about injustice. Emotion is thereby not an irrational, idiosyncratic force, for when emotion constitutes and strengthens beliefs it has predictable effects: as an assimilation mechanism, which helps with the selection and interpretation of evidence; and as a carrier of utility, which means that people care about process as well as outcome. Moreover, rationality is dependent upon emotion, and emotion is necessary for rationality (Damasio, 1994; Verdejo-Garcia et al., 2006; Harris et al., 2008). Emotion and cognition are not competing processes, and their mental mechanisms appear to be intertwined (Phelps, 2006; Turner and Stets, 2005).

4.1.5 Rationality and Power

Understanding rationality and power is the key to understanding actual political and administrative behaviour (Flyvbjerg, 2000). There are contrasting views about power. For Habermas (1990), reality is characterised by context-independent universals, where the only active form of power is the 'force of the better argument'. In contrast, Foucault (1988) argues for the local and the context-dependent, and for the analysis of strategies and tactics as a basis for the struggle for power. While agreeing that in politics one must side with reason, Foucault (1980) warns that "to respect rationalism as an ideal should never constitute a blackmail to prevent the analysis of the rationalities really at work" (p. 317).

Flyvbjerg (1998) argues that power defines rationality rather than just discovering what reality 'really' is. It defines what counts as rationality and knowledge, and thereby counts as reality. The subjective nature of this reality is manifest through interpretation, which is itself a means

of becoming master of something and subduing and becoming master involves fresh interpretation (Nietzsche, 1908/1996). Flyvbjerg (1998) further argues that power defines, and creates concrete physical, economic, and social realities. Rationality is context-dependent, the context of rationality is power, and power blurs the dividing line between rationality and rationalisation. The freedom to interpret and use rationality and rationalisation for the purposes of power is a crucial element in enabling power to define reality and, hence an essential feature of the rationality of power. The relationship between rationality and rationalisation is often what Goffman (1959) calls 'front-back'. He argues that 'up-front' is the public face of rationality which is frequently presented as rationality, but the most important part sits backstage, hidden from view, where power and rationalisation dominate.

4.1.6 Rationality and Morality

Philosophers, such as Hume, Hobbes, Locke and Aquinas, argue that moral requirements are based on standards of rationality.

McInerny (1997) argues that, for Aquinas morality is rational activity, where the human agent acts knowingly-willingly. The will is an example of a rational appetite, which is informed by an intellectual understanding of the world. Actions are judged to be good or bad in relation to real human goods for which they are either conducive (good) or detrimental (bad). To have acted well, is simply to have done something that is good in every respect.

Sheridan (2016) argues that Locke (1663-4/1997) seems to hold two distinct positions on morality, that of 'natural law' and the other that of hedonism. The natural law position is that moral rules are founded on divine, universal and absolute laws and as such are obligatory, but are discernible by human reason. The hedonistic moral theory holds that all goods and evils reduce to specific kinds of pleasures and pains, which require sanctions and rewards to provide morality with its normative force. Locke's hedonism is intended as a theory of moral motivation,

serving to fill a motivational gap between knowing moral law and having reasons to obey that moral law (Darwall, 1995). According to this, reason deduces natural law, but it is hedonistic considerations alone which offer agents the motivating reasons to act in accordance with its dictates. Morality carries both intrinsic and extrinsic obligatory force (Locke, 1663-64/1997).

Chung (2014) argues that the Humean conception of practical rationality (ie instrumental rationality) is based on the premises that: (a) no preferences or desires, by themselves, are irrational or rational; (b) the basic role of reason and other rational faculties are confined to the following two roles; (b-1) to inform the agent with *true beliefs* about the world, and (b-2) to inform the agent with the *most effective means* to achieve a given end in the light of these true beliefs about the world. That is, reason and rationality say nothing about the agent's ends themselves.

Kant (1785/2000) argued that all specific moral requirements are justified by the universal principle of the categorical imperative, as the supreme principle of morality, which is as an objective, rationally necessary and unconditional principle. All immoral actions are thus irrational since they violate the categorical imperative. Therefore, whenever we try to give a reason for an action we must appeal to universal motives. In contrast, Nietzsche (1882/2001) argued against those "historians of morality [who] unsuspectingly stand under the command of a particular morality and, without knowing it…Their usual mistaken premise is that they affirm some consensus among peoples … and then conclude that these principles must be unconditionally binding also … or, conversely, they see that among different peoples moral valuations are necessarily different and infer from this that no morality is binding - both of which are equally childish" (pp 202-3).

The tension between a universal and a contextual morality is emphasised by Foucault (1984) when he argues that the "search for a form of morality acceptable by everyone in the sense that

everyone would have to submit to it, seems catastrophic" (p. 37). This was supported by Flybjerg (2000) by his comment that "despite more than two thousand years of attempts by rationalistic philosophers, no one has been able so far to live up to Plato's injunction that to avoid relativism our thinking must be rationally and universally grounded" (pp. 8-9).

4.1.8 Summary

While reason provides a basis for rationality and morality, all these terms are contested, including that of the divide between universality and contextualism. There is, however a strong belief that reason and rationality must be associated with a calculative drive to maximise some sort of utility.

The rationalisation process depends on an individual's implied or stated, unconscious or conscious, preference for certain ultimate values and the systematisation of the individual's action to conform to these values. Values acquire 'rationality' from their status as consistent value postulates. Therefore, something is not of itself 'irrational', but rather becomes so when examined from the perspective of a different set of values.

The meaning of rationality relates to both how and to why certain decisions are made. The why question concerns the issue of the motivations of agents, which can include: those used in rational choice theory such as self-interest and utilitarian power-seeking; and the emotional; and the social and moral.

Emotions play an important role in rational thought and action, particularly in a social context. Rationality requires the meeting of emotion and cognition in beliefs, making rationality dependent upon emotion, and emotion a necessity for rationality.

The moral bases relate to ethical standards, which rationally impose an obligation to act consistently according to values and beliefs. Thus, rationality implies conformity and

consistency between belief and the reasons to believe, or of the actions for the reasons for action. Consistency with an underlying belief set is seen to be the key to rationality, which dispenses with the concept of rationality in favour of rationales. Etzioni (1988) argues that rationality may be ascribed to rationales that are both justifiable and refutable in the eyes of the choosing actor. Convictions and actions which the actor holds as inherently unfalsifiable might then be seen to be non-rational, rather than irrational.

In summary, if reality is socially constructed, and rationality is about making sense of reality, then rationality itself must be socially constructed. The factors which affect this construction relate to: history; context; ideology; conceptions of human nature; emotions; and power. Power is a particularly strong influence, since it defines what counts as rationality and knowledge. Power thereby counts as reality. It defines, and creates, concrete physical, economic, and social realities, and the subjective nature of this reality is manifest through interpretation. This interpretation means that reality and rationality are context-dependent, and that context is power.

Theories concerned with the ways in which this reality is historically constructed are now discussed in the Sections 4.2 to 4.4.

4.2 New Institutionalism

This section discusses the theoretical underpinning for the way in which corporate governance in UK nonprofit sector was created from the 'for-profit' sector, through a consideration of new institutionalism. Three analytical approaches to New Institutionalism: historical; rational choice; and sociological institutionalism (Hall and Taylor, 1996) are considered, and an argument made for preferring the sociological approach. The various definitions of an institution are considered in the first instance followed by an outline of historical, rational choice and sociological institutionalisms. The ways in which institutions, ideas, beliefs and

behaviours interact are then considered. The ways in which institutions are produced and reproduced are considered, which then leads onto a discussion of the dialectical approach and path dependency.

4.2.1 Institutions

Historical, rational choice, and sociological institutionalisms provide differing meanings for an institution, but they have in common that they view them as rules which structure behaviour (Steinmo, 2008). The most common definition of an institution is: 'rules', which may be either formal rules and organisations (Streeck and Thelen, 2005), or informal rules and norms (Hall, 1989; Marcussen, 2000). Institutions provide moral or cognitive templates for interpretation and action. The individual is seen to be an entity deeply embedded in a world of institutions, composed of symbols, scripts and routines, which provide the filters for interpretation, of both the situation and oneself, out of which a course of action is constructed (Hall and Taylor, 1996).

Institutions are generally regarded as enduring entities which cannot be changed instantaneously or easily (Alford and Friedman, 1985; Hall and Taylor, 1996; March and Olsen, 1984; Meyer and Rowan, 1977; Powell and DiMaggio, 1991; Scott, 1987; Thelen and Steinmo, 1992). Where institutionalists differ is over their understanding of the nature of the beings whose actions or behaviour is being structured.

4.2.2 Historical Institutionalism

Historical institutionalists define institutions as the formal and informal procedures, routines, norms and conventions embedded in the organisational structure of the polity or political economy. These are in general associated with organisations and the rules or conventions promulgated by formal organisation.

Historical institutionalists are proponents of an image of social causation which is 'path dependent' in the sense that it rejects the traditional postulate that the same operative forces

will generate the same results everywhere, in favour of the view that the effect of such forces will be mediated by the contextual features of a given situation often inherited from the past.

4.2.3 Rational Choice Institutionalism

The rational choice school argues that humans are rational individualists who calculate the costs and benefits in the choices they face. The importance of institutions is that they frame the individual's strategic behaviour. People follow rules because humans are strategic actors who want to maximise their personal or individual gain. For example, the development of a particular organisational form can be explained as the result of an effort to reduce the transaction costs of undertaking the same activity without such an institution (Williamson 1975, 1985).

Rational choice institutionalists base their actions on a characteristic set of behavioural assumptions which include a fixed set of preferences or tastes, and behaving entirely instrumentally in order to maximise the attainment of these preferences. They do so in a highly strategic manner that presumes extensive calculation (Hall and Taylor, 1996). This straightforwardly egoistical view is challenged in this thesis.

In rational choice institutionalism, institutions are created by voluntary agreement between actors to realise a stylised specification of the function the institution performs. Institutions affect individual action by a strategic calculus which is also deeply affected by the actor's expectations about how others are likely to behave as well. The degree to which this can be applied to formal group decision making is contested by social group theory (Arrow, 1951; Black, 1948; Sen, 1966, 1970, 1998).

Rational choice theory is variously described (Elster, 1986; Farmer, 1992; Hogarth and Reder, 1987; Simon, 1982), but Macdonald (2003) defines it as a "theory of social behaviour whose distinctive theoretical assumption is that actors in the theory behave according to the rationality

assumption" (p. 552). The rationality assumption comprises: purposive action; consistent preferences; and utility maximisation. Purposive action posits that most social outcomes can be explained by goal-oriented action rather than being motivated by habit, tradition, or social appropriateness. Consistent preferences refer to those which are ranked, are transitive, and do not depend on the presence or absence of essentially independent alternatives. Utility maximisation assumes that actors will select the behaviour that provides them with the most subjective expected utility from a set of possible behaviours.

Rational choice is theoretically and empirically challenged, for instance by Elster (2007) who opines that it had less explanatory power than he used to think; and found the evidence quite weak that real people acted on the basis of cold mathematical calculation.

4.2.4 Sociological Institutionalism

Sociological institutionalism offers a wider interpretation of institutions than those based on the economic conceptions of rationality and efficiency (Mason et al., 2007). They are defined by Scott (2001) as "social structures that have attained a high degree of resilience ... are composed of cultural cognitive, normative, and regulative elements that together with associated activities and resources, provide stability and meaning to social life ... are multifaceted, deniable social structures, made up of symbolic elements, social activities, and material resources" (pp. 48-49). Hall and Taylor (1996) argue that it is this symbol system which provides the 'frames of meaning' which guides human actions, thereby breaking down the divide between 'institutions' and 'culture'. In fact, culture itself is regarded as an institution which provides a template for behaviour.

Scott (1995, 2001) considers institutions to rest on regulative, normative and cultural-cognitive pillars, which "together with associated activities and resources, provide stability and meaning to social life" (Scott 2001, p. 48). The regulative pillar comprises both formal and informal

mechanisms which prioritise “rule setting, monitoring and sanctioning activities” (ibid, p. 52). Power is central to the operation of the regulative pillar and of corporate governance (Scott, 2001). The institutionalisation of corporate governance is, as Powell and Colyvas (2008) observe, "a political process, and the success of the process and the form it takes depends on the relative power of the actors who strive to steer it" (p. 5). The normative pillar is rooted in a prescriptive, evaluative, and obligatory dimension of social life, which depends on values and norms as the basis of social obligation (Suchman, 1995). Scott (2001) described the cultural-cognitive pillar of institutions as the means of making meaning through the shared conceptions that constitute the nature of social reality, which explains how behaviours are shaped by both technical aspects and cultural rules promoted within the external environment.

In general, economists and rational choice theorists stress regulative elements (Moe, 1984; North, 1990; Williamson, 1975); early sociologists favoured normative elements (Hughes, 1939; Parsons, 1934; Selznick, 1948); and more recent organisational sociologists and cultural anthropologists emphasise cultural-cognitive elements (DiMaggio and Powell, 1991; Douglas, 1986; Zucker, 1977).

Sociological institutionalism recognises the view in which, according to Steinmo (2008), humans are fundamentally social beings who are neither as self-interested, nor as ‘rational’ as rational choice theory would have it (March and Olsen, 1989), rather they are ‘satisficers’ who act habitually, and follow a logic of appropriateness in which the important institutions (rules) are social norms that govern everyday life and social interaction.

This institutionalist view accords with the arguments made in previous Chapters concerning the characteristics of human nature and the contextual basis of rationality and of motivation. This view also provides the grounding for determining the links between the creation and reproduction of institutions as defined by sociological institutionalism and behaviour.

4.2.5 Institutions and Behaviour

Institutions thus influence behaviour by specifying what should be done and what one can imagine oneself doing in a given context. In many cases, institutions are said to provide the very terms through which individuals assign meaning, basic preferences and identity. So, when individuals act as social convention specifies, they simultaneously constitute themselves as social actors, in the sense of engaging in socially meaningful acts, and reinforce the convention to which they are adhering.

Institutions are produced and reproduced through social processes by which individuals accept a shared definition of social reality; and behaviours become habitualised so as to minimise the effort of decision-making (Berger and Luckman, 1966; Scott, 1987; Tolbert and Zucker, 1996). Rules become institutionalised as classifications built into society as reciprocated typifications or interpretations, which involve the social processes by which, for example obligations come to take on a rule-like status in social thought and action (Meyer and Rowen, 1977).

While the idea that social behaviour is anchored in rule systems and cultural schema is common ground for institutionalists (Scott, 2004), the different schools have differing views about how this happens. Hall and Taylor (1991) argue that historical institutionalism utilises both a calculus and a cultural approach but does not precisely define the casual link between them. Rational choice institutionalism does have a clear link, but this is based on a relatively simplistic image of human motivation (Cook and Levi, 1990; Mansbridge, 1990). Sociological institutionalists theorise that there are culturally specific ways in which institutions can affect the underlying preferences or identities of actors. This cultural specificity provides additional ways by which the institutional environment may affect the strategies which actors choose. This is manifest in the attempt to better understand: the ways in which ideas, values and beliefs affect history and politics; and who are specifically applying these insights to understanding

institutional change more broadly (Katznelson and Weingast, 2005; Marcussen, 2000; McNamara, 1998).

The production and reproduction of institutions, ideas and the environment should be viewed as co-evolutionary processes, driven by internal contradictions. The outcomes are contingent and non-predictable rather than linear and predictable. The dialectical processes which drive change are discussed in Section 4.3, and the path dependent outcomes of these forces of change are considered in Section 4.4. The path dependency approach integrates agency into the analysis rather than seeing actors as prisoners of the institutions they inhabit (Mahoney, 2000; Steinmo, 2008).

4.3 Dialectics

Dialectics are a mode of thought which helps us to understand a world full of paradoxes (or contradictions). Hegel's dialectic is based on his belief in connectedness, or the interrelation of all aspects of the universe (O'Connor, 2003). It involves the reconciliation of ostensible paradoxes to arrive at absolute truth, through a three-step process comprising the movement from thesis to antithesis to synthesis (O'Connor, 2003). In this model, the thesis is a static, clearly delineated concept, which then moves to its opposite (or antithesis). This antithesis represents any contradictions derived from a consideration of the rigidly defined thesis. The thesis and antithesis are yoked together and resolved to form the embracing resolution, or synthesis. Macey (2000) argues that this is a continuing process because each time synthesis is achieved it "generate[s] new internal contradictions, and then a further resolution" (p. 96).

Formal logic from Aristotle through Immanuel Kant had been based on three laws of thought: identity, non-contradiction, and the excluded middle; which categorically rejects the possibility that truth is compatible with the presence of contradictions (Wilde, 1991). However, Hegel (1816/2000) argued that everything was contradictory; and further maintained that there is

absolutely nothing whatever in which we cannot and must not point to contradictions (Hegel , 1830/2009). Hegel's ‘contradiction’ challenges the classical notion of static self-identity, A = A, or A not = non-A. While negation or contradiction means opposition, reflection or relation, it can also indicate the mere insufficiency of a category, its incoherence, or its self-contradictoriness. The Hegelian dialectic assumes rationality to be the driving force in the universe. Arguing in the framework of materialist dialectics, Mao (1967) stated that “the law of contradiction in things, the law of the unity of opposites, is the basic law” (p. 311); and that the “fundamental cause of the development of a thing is not external but internal; it lies with the contradictoriness within the thing” (p. 313).

Dialectical thinking derives its dynamic of negation from its ability to reveal ‘contradictions’ within almost any category or identity through the triadic structure of thesis, antithesis and synthesis. Any real-life system will have multiple and interconnected contradictions, one of which is the principal contradiction, whose existence and development determines or influences the existence and development of the other contradictions and its principal aspect. The principal contradiction plays the leading and decisive role, while the rest occupy secondary or subordinate positions. This situation is dynamic, so the principal and the non-principal aspects of a contradiction can transform themselves into each other and the nature of things transforms themselves accordingly (Mao, 1967). This view can be argued to parallel the grounded theory concept of the definition of core category upon which substantive theory rests. It thus provides the basis for the how the system of nonprofit governance is considered within thesis, reflecting a fluid process in which different neoliberal and public service worldviews struggle for dominance. Sometimes new transformative meanings are constructed as a result of this struggle.

The dialectical approach thereby describes the motor for change, which arise from internal contradictions, but the actual changes are contingent and cannot be mechanistically determined. This contingency is now considered in the section on path dependency.

4.4 Path Dependency

North (1990) sees path dependency as a process which constrains future choices, as "a way to narrow conceptually the choice set and link decision-making through time. It is not a story of inevitability in which the past neatly predicts the future" (pp. 98-99). A path dependent decision is one which is informed by its historical setting such that the rationality at issue is 'bounded' in some relevant respect and thereby likely to produce sub-optimal outcomes.

Path dependency is a property of contingent, non-reversible dynamical processes, which include a wide array of social processes that can properly be described as 'evolutionary' in a world governed by insignificant accidents of history (David, 2000). These processes play out dynamically over time. So an explanation is required of how the drivers of change unravel themselves over time such that they allow for the possibility of change as a function of time (Kay, 2005). In contrast to Smith (1776/2005), Liebowitz and Margolis (1995) argue that "in the world of path dependence…our expectations for market outcomes are turned upside down. The Invisible Hand does not work in the world of path dependence" (p. 33).

While path-dependent analyses are highly sensitive to events which take place in the early stages of an overall historical sequence, once contingent historical events take place, path-dependent sequences are marked by relatively deterministic causal patterns or what can be thought of as 'inertia', or as 'self-reinforcing' sequences, such that over time it becomes difficult or impossible to reverse direction (Mahoney, 2000). The creation of institutions corresponds to a 'critical juncture' (Abbott, 1997; Collier and Collier, 1991; Lipset and Rokkan, 1967), which is characterised by the adoption of a particular institutional arrangement from

among two or more possibilities. These junctures are 'critical' because once a particular option is selected it becomes progressively more difficult to return to the initial point when multiple alternatives were still available (Levi, 1997). Thus, the particular form(s) which the nonprofit sector in the UK and elsewhere take are argued to be determined from these critical junctures.

The utilitarian; functional; power; and legitimation explanations provide the dominant theoretical frameworks for the analysis of institutional reproduction. In the utilitarian framework, actors rationally choose to reproduce institutions - including perhaps those which are sub-optimal. Institutional change occurs when it is no longer in the self-interest of actors to reproduce a given institution. Rational choice analysts predict that institutions will emerge only when it is in the private interests of individuals to establish them (Hechter et al., 1990), but do not typically treat the genesis of institutions as contingent (Hill, 1997).

In the weak functional view, the reproduction of institutions is explained in terms of their consequences and as such is compatible with a wide range of theoretical explanations (Stinchcombe, 1968). The strong version explains institutional reproduction through its functional consequences, such as adaptation and survival in the larger system within which the institution is embedded. Thus, once contingent events initially produce a particular institution, functionalist logic identifies predictable self-reinforcing processes, which may mean that the institution which is ultimately adopted may be less functional in the long-run than alternative institutions that could have been developed.

Those who adopt 'power' explanations of self-reinforcing processes assume that actors make decisions by weighing costs and benefits, which are distributed unevenly, with actors having conflicting interests in institutional reproduction. Thus, an institution can persist even when most individuals or groups prefer to change it, so long as the elite which benefits from the

existing arrangement has sufficient strength to promote its reproduction (Collins, 1975; Oberschall and Leifer, 1986; Rueschemeyer, 1978).

In a legitimation framework, institutional reproduction is based on actors' subjective orientations and beliefs about what is appropriate or morally correct (Dowling and Pfeffer, 1975; Linz, 1978; Scott, 1991; Thelen, 1999). Beliefs in the legitimacy of an institution may range from active moral approval to passive acquiescence in the face of the status quo. Legitimation explanations assume the decision to reproduce an institution derives from the actor's self-understandings about what is the right thing to do, rather than from utilitarian rationality, system functionality, or elite power. An institution is thereby reproduced because it is seen to be legitimate; and the reproduction of the institution reinforces its legitimacy.

Immergut (2006) argues that it may not be possible or desirable to make historical analysis more scientific and exact, if the very purpose of the historical approach is precisely to capture the unpredictable, contingent nature of human action, which stems precisely from the self-reflective capacities of human actors. In the constructivist view, actors construct and are constructed by symbolic constructs such that culture and institutions are 'constitutive' of human agency (Calhoun, 1991, 1994; Hattam, 2000; Jupille et al., 2003). This lack of explanatory power is a basis of criticism of path dependency (Kay, 2005). This criticism is however common to many approaches in the social sciences.

The mechanism by which path dependency operates depends on whether agents operate under rational choice theory assumptions or use a more informal, intuitive and post-positivist approachs. The notion of context-bound rationality is at the heart of decision making in a path-dependent process. It is the guiding habits of thinking which inform and restrict the choices taken (Wittgenstein, 1969, 1983), in which the notion of 'hinge propositions', guide the assumptions of a certain activity which inform and restrict the choices taken. These guiding

unevaluated assumptions are forms of tacit knowledge which are ingrained into the way agents construct their situations, their decisions and their actions.

4.5 Chapter Summary

This chapter brought together the concepts of rationality, morality, and ways in which they act together as theorised by sociological institutionalism. It argues that change is driven dialectically by internal contradictions, which are implemented contingently through path dependence. The institutions of corporate governance in the nonprofit sector are thus argued to arise contingently from the internal contradictions arising from an historical context.

The concept of rationality was discussed from the points of view ethics, emotion, power and morality. While rationality and rationalisation processes have been argued to be, in greater or lesser degree, universal (Parsons, 1937; Weber, 1915/1951, 1922/1978); this thesis argues that rationality itself is socially constructed, and therefore contextual, but it is consistency with underlying beliefs which is seen to be the key to rationality.

Rationality underpins the creation and maintenance of institutions. Institutions are the product of ideas and the creation of institutions and their change can be regarded as a product of changes in ideas held by actors which are produced and reproduced through social processes by which individuals accept a shared definition of social reality. The factors which affect this social construction include: historical context, ideology, conceptions of human nature, emotions, and power. Power is a particularly strong influence, since it defines what counts as rationality and knowledge and thereby counts as reality. It defines, and creates the subjective nature of this reality which is manifest through interpretation. This interpretation means that reality and rationality are context-dependent, and that context is power.

Sociological institutionalism was argued to be the most appropriate way to theorise institutions. It sees them as social structures which bring meaning to social life, whose foundations include:

the regulative, which includes rule setting and power; and the normative, which are dependent on values and social norms. In this view, humans are fundamentally social beings who follow the logic of appropriateness in which the important institutions (rules) are social norms that govern everyday life and social interaction.

Institutions, ideas and the environment are viewed as co-evolutionary processes, driven by internal contradictions, where the outcomes are contingent and non-predictable rather than linear and predictable. This path dependent evolutionary approach constrains future choices, rather than allowing for neat predictions based on the past. It is highly sensitive to critical junctures which create institutions, but once these paths are embarked upon it is possible to describe them as being reproduced through relatively deterministic causal patterns which over time make it difficult or impossible to reverse direction.

The realities of corporate governance have been constructed by power in different environments. Political power imported the processes and structures into the nonprofit sector through NPM. The power of interpretation has influenced the political establishment to import these structures and transmit them through standards and organisations into the nonprofit sector. However, in action, the nonprofit sector argued to be significantly affected by concepts such as moral duty and altruism. This can be conceptualised as differentiating the realities and rationalities of the for-profit and nonprofit sectors.

CHAPTER 5: Methodology

This chapter is presented in sections concerning: the philosophical underpinning of methodology; an analysis of the critical theory and constructivist paradigms of inquiry; a review of the methodologies associated with those paradigms; the application of the constructivist paradigm to this research; and a description of the research methods used.

Section One provides a philosophical perspective, by considering the positions of the phenomenology and pragmatism on the concepts of reality, truth and knowledge. The relationship between phenomenology and pragmatism is then considered, which leads to a review of the philosophical basis of grounded theory.

Section Two considers the nature of the critical theory and constructivist paradigms of inquiry. Collis and Hussey (2003) argue that, having decided which paradigm to adopt, the choice of methodology is largely determined. Section Three then provides an explanation of the concepts and practicalities of grounded theory, followed in Section Four by a description of its application in the constructivist grounded theory approach to this research. This leads onto Section Five, which provides an explanation of the ethnographic technique and its relationship with grounded theory, and along with a consideration of the elite interviews used. The final section then provides a summary of this Chapter.

5.1 Philosophical Perspective

The philosophical perspective is based upon a consideration of the concepts of reality, truth and knowledge. Reality can be totally separate from, or a construction of, the mind. Truth may be interpreted as reflections of reality based on evidence which is determined by an understanding of reality at any given point in time. Knowledge is a means of reflecting reality and truth, involving the interpretation of facts derived from data as well as abstract

comprehensions of phenomena; and theory which provides ways of explaining or giving meaning to understandings extrapolated from data. (Howell, 2013).

This research follows a constructivist paradigm of inquiry using grounded theory, which has its roots in pragmatism and symbolic interactionism. This chapter considers: phenomenology through a discussion of the positions of the phenomenologists Husserl, Heidegger and Merleau-Ponty; and pragmatism through the literature of James, Pierce, and Dewey. The relationship between phenomenology and pragmatism is then considered, leading to a review of the philosophical basis of grounded theory.

5.1.1 Phenomenology

Phenomenology is the study of structures of consciousness as experienced from the first-person point of view. It recognises that the centrality of experience is its intentionality, which is directed toward an object by virtue of its content or meaning (which represents the object) together with appropriate enabling conditions (Smith, 2013). Phenomenology can be considered as an umbrella term which encompasses both a philosophical movement and a range of research approaches. It is a discipline which "aims to focus on people's perceptions of the world in which they live in and what it means to them; a focus on people's lived experience" (Langdridge, 2007, p.4).

Husserl (1913/1969) argues that to "understand the essential nature of phenomenology requires a new way of looking at things… one that contrasts at every point with the natural attitude of experience and thought" (p. 43). Husserl (1927/1971, 1935/1965) formulated the concept of epoché, as a way of suspending judgement as to whether objects of consciousness exist. Husserl (1939/1954) argues that this means 'bracketing' or seeing things as they really are. In what Husserl describes as the first epoché, "the natural sciences" (p. 135), the researcher must set aside prior scientific assumptions. The second epoché is that of the 'natural attitude', which

requires a suspension of our 'naïve' belief in the existence of what presents itself in the life-world to focus instead on its subjective manners of appearance and givenness. Husserl (1939/1954) refers to this focus on experience (apart from issues concerning the existence of what is experienced) as the "phenomenological psychological reduction" (p. 236).

For Husserl, phenomenology represents the essence of consciousness and is centred on the defining trait of intentionality which involves the core of the relationship between an act and the object of consciousness. "We understand under Intentionality the unique peculiarity of experiences 'to be the consciousness of something' " (Husserl, 1913/1969, p. 242). The premise of Husserl's transcendental phenomenology is that experience is to be transcended to discover reality, by suspending personal opinion, to arrive at a single, essential and descriptive presentation of a phenomenon.

A distinction can be made between descriptive and interpretive, (or hermeneutic), phenomenology. Interpretive phenomenology emerged from the work of hermeneutic philosophers, such as Heidegger, Gadamer, and Ricoeur, who argue for our embeddedness in the world of language and social relationships, and the inescapable historicity of all understanding. In his hermeneutical philosophy, Heidegger (1927/1962) said that the "meaning of phenomenological description as a method lies in interpretation," (p. 37), which constitutes an inevitable and basic structure of our 'being-in-the-world'. We experience a thing as something that has already been interpreted.

The division between these descriptive and interpretive variants of phenomenology finds reflection in research. Heidegger (1927/1962) argued that "every inquiry is seeking [Suchen]. Every seeking is guided beforehand by what is sought. Inquiry is a cognizant of an entity both with regard to the fact it is and with regard to its Being as it is … Inquiry itself is the behaviour of a questioner, and therefore of an entity, and as such has its own character of Being" (p. 24).

Heidegger posited the concept of Dasein as a way of being involved with and caring for the immediate world in which one lived, while always remaining aware of the contingent element of that involvement, of the priority of the world to the self, and of the evolving nature of the self itself. “We are ourselves the entities to be analysed” (Heidegger, 1920-21/2004, p.67). Thus, Heidegger’s hermeneutical phenomenology rejects Husserl’s idea of the suspension of personal opinions, focusing instead on the subjective experience of individuals and groups. It is an attempt to unveil the world as experienced by the subject through their life world stories. That is, all we have and description itself is an interpretive process.

Carman (1999) argues that “[u]nlike Husserl, but like Heidegger, Merleau-Ponty looks beyond the subject object divide to try to gain insight into the concrete structures of worldly experience” (p. 206). Merleau-Ponty bases his phenomenological project on an account of bodily intentionality and the challenge it poses to any adequate concept of mind, raising the question of the very notion of the mental as a distinct phenomenal region mediating our intentional orientation in the world. Merleau-Ponty (1945) differs from Husserl on consciousness and sensation, when for example, he writes that “the greatest lesson of the reduction is the impossibility of a complete reduction” (p, xiv). Carman (1999) argues that Merleau–Ponty (1945) may be seeking to reconcile Husserl’s conception of transcendental subjectivity with Heidegger's analytic of Dasein, when he writes “far from being, as has been believed, the formula for an idealistic philosophy, the phenomenological reduction belongs to existential philosophy: Heidegger’s ‘being-in-the-world’ appears only on the basis of the phenomenological reduction” (p, xiv).

Merleau-Ponty (1945) insists that “the material and form of knowledge are artefacts of analysis. I posit a material of knowledge when, breaking away from the original faith of perception, I adopt a critical attitude toward it and ask myself, ‘What am I really seeing?’ Indeed, in ordinary experience, “neither object nor subject is posited” (p. 241).

Merleau-Ponty argues then that phenomenology is the study of essences, where the term essence refers to the essential meanings of a phenomenon; that which makes a thing what it is (van Manen, 1990). Heidegger (1954/1977) describes the essence [Wesen] of a phenomenon as "the way in which it remains through time as what it is" (p. 3). However, Merleau-Ponty (1945) emphasised that the world and the self are inseparable. Moran (2008) stated that people should be seen as "integrated into the natural order, as fundamentally belonging to the world, though not merely as objects in the world as their presence generates the social world of culture" (p. 403).

Myers (1984) argues that phenomenology and pragmatism share a special vision of the manner in which man is intentionally related to his world. However, according to Rosenthal and Borgeois (1980) the difference between Merleau-Ponty and pragmatism is critical, "since in maintaining that the *a priori* is not merely applied to the world but is discoverable there, he understandably moves closer to Heidegger in thinking that the apprehension and description of structures are more fundamental than the kind of explanation that is typically sought by pragmatism" (p. 189).

5.1.2 Pragmatism

Pragmatism (Dewey, 1920, 1925, 1929; James, 1878, 1896, 1902, 1907, 1909; Pierce, 1877, 1878) is a philosophical movement which includes those who claim that an ideology or proposition is true if: it works satisfactorily; the meaning of a proposition is to be found in the practical consequences of accepting it; and unpractical ideas are to be rejected. Pragmatists generally subscribe to a set of maxims and themes, such as: (i) the centrality of the question "of the concrete practical difference made to theory if it were true and its rival(s) false; (ii) that no sense can be made of the idea that there are facts which are unknowable in principle and forever hidden behind the veil of phenomena; (iii) theories and models are to be judged primarily by their fruits and consequences, not by their origins or their relations to antecedent

data or facts; and (iv) all beliefs and theories are best treated as working hypotheses which may need to be modified, refined, revised, or rejected in light of future inquiry and experience.

James (1909) considered truth to be "a property of certain of our ideas. … True ideas are those that we can assimilate, validate, corroborate, and verify. False ideas are those which we cannot" (pp. v-vi). Dewey (1916) states that the "meaning of objects is the effect they produce" (p. 309). That is, whether a "belief is good or bad depends upon whether the activities which it inspires in the organism entertaining the belief have consequences which are satisfactory or unsatisfactory to it" (Russell, 1945, p. 825). Truth is thus dependent on human action. Similarly Pierce (1877) argues that true opinions are those which inquirers will accept at the end of inquiry; that is, views which cannot be improved, no matter how far inquiry on that subject is pressed or pushed.

Dewey's (1939) criterion of truth is "a method, to be used by intelligent men who would have a sympathetic regard for persons of differing views" (p. 775). The guarantee of objectivity is "the social sensitivity of the observer to the needs of others" (Dewey, 1920, p. 147). To judge the credibility of grounded theory, Glaser and Strauss (1967) use a criterion based on the feelings of empathy aroused in the observer: if the reader is so caught up in the description that that person feels as if they were in the field, they are more likely to be convinced of the accuracy of an account than if the description were flat and unconvincing. The judgment is also based on the assessment of how the researcher came to his conclusions, whom he interviewed, and how he might have appeared to those he studied.

5.1.3 Philosophical Bases of Grounded Theory

Grounded theory brings together the two contrasting and competing traditions of Columbia University positivism and Chicago school pragmatism with field research (Charmaz, 2006). It evolved from the tradition of symbolic interactionism and pragmatism inherited largely from

Dewey and Mead (Fisher and Strauss, 1978, 1979a, 1979b; Strauss, 1991). According to Blumer (1969), 'symbolic interaction' refers to a particular form of interaction which occurs between persons. He argues that its "peculiarity consists in the fact that human beings interpret or 'define' each other's actions instead of merely reacting to each other's actions. Their 'response' is not made directly to the actions of one another but instead is based on the meaning which they attach to such actions" (p.19).

Leibnitz (1989) observed that "[s]ince reality has thus passed for a vision, what is to prevent a vision from passing as reality. The more consistency we see in what happens to us, it is true, the more our beliefs are confirmed that what happens to us is reality" (p. 154). The nature of reality was argued to be fluid by Strauss (1993), who observed that "fragmentation, splintering, and disappearance are the mirror images of appearance, emergence, and coalescence. … where nothing is strictly determined. Its phenomena should be partly determinable via naturalistic analysis, including the phenomenon of men participating in the construction of the structures which shape their lives" (p. 19). This leads to the statement of a set of working axioms behind the conception of the methodology of Glaser and Strauss: that the world is very complex, with events being the results of multiple factors coming together and interacting in complex and often unanticipated ways. Therefore, Charmaz (2006) argues that any methodology which attempts to understand experience and explain situations will also have to be complex. Glaser (1978) imbued grounded theory with dispassionate empiricism, rigorous codified methods, emphasis on emergent discoveries, and its somewhat ambiguous specialised language which echoes quantitative methods. Strauss's Chicago School heritage meant that he viewed human beings as active agents in their lives and rather than the mere recipients of larger social forces (Charmaz, 2006).

This idea of active agents echoes the point that it is process, not structure, which is fundamental to human existence, since human beings created structures through engaging in processes. The

importance of connecting human action with structural explanations was recognised by Giddens (1979) through the concept of structuration, which "in social theory, the notions of action and structure presuppose one another; but that recognition of this dependence, which is a dialectical relation, necessitates a reworking both of a series of concepts linked to each of these terms, and of the terms themselves" (p. 53). He saw the concept of structuration as involving "the duality of structure, which relates to the fundamentally recursive character of social life, and expresses the mutual dependence of structure and agency" (p. 69).

5.2. Paradigms of Inquiry

The previous section considered underlying issues concerning beliefs about the world. It focused on phenomenological views of reality, truth and knowledge which underpin the paradigms of inquiry which are now considered. This section considers paradigms of inquiry which have been described as a set of basic beliefs or a world view (Guba and Lincoln, 1994), built on implicit assumptions, accepted definitions, comfortable habits, and values defended as truths (Patton, 1999). They represent the accepted rules and standards for scientific practice such as law, theory, application, and instrumentation, serving to define that which should be studied, the questions which should be asked, and the rules to be followed in interpreting the answers obtained (Kuhn, 1970). The various paradigms of inquiry reflect different views on these issues as reflected in their ontologies and epistemologies. While they overlap, the paradigms move progressively from the objectivist view of reality of positivism, to the subjectivism of phenomenology of Husserl, Heidegger, and Merleau-Ponty. A review of the critical theory and constructivist paradigms is now provided to give a background for the choice of the constructivist paradigm for this research..

5.2.1 Critical Theory Paradigm

Kincheloe and McLaren (2000) observe that critical theory usually refers to the theoretical tradition developed by the Frankfurt School (Horkheimer, Adorno, and Marcuse) based in the

German tradition of philosophical thought, especially those of Marx, Kant, Hegel and Weber. From the perspective of the Post World War 1 era, critical theory holds that injustice and subjugation shape the lived world (Bottomore, 1984; Held, 1980; Jay, 1973).

Power concepts, such as hegemony, ideology and language are central to critical theory, and combined with a "pronounced interest in critically disputing actual social realities … The aim … is to serve the emancipatory project, but without making critical interpretations from rigid frames of reference" (Alvesson and Skoldberg, 2009, p. 144).

McCarthy (1994) observed that "one of the first tasks of critical theory was to challenge the privileged 'non-position' of social-scientific knowledge by analysing the modes of its production, the roles it played in society, the interests it served, and the historical processes through which it came to power" (pp. 14-15). Habermas (2003) argued the importance of subjectivity because observation must be replaced by dialogue. Critical theory accepts that social and historically constituted power relations affect and mediate all ideas and thinking, and that values and facts can never be separated. Moreover, facts always contain an ideological dimension. This subjectivism reinforces the reflexive view of McCarthy (1994), who argues that objectivist view of positivism misses the point that the "social world is produced and reproduced in and through the social actions of actual actors, including the activities of agents engaged in analysing it" (p. 15). This reflexivity, which makes explicit the underlying ideological perspectives in relation to self-conscious subjectivity, normative morality and epistemological precepts, is central to critical theory. Howell (2013) observes that "critical theorists challenge positivistic positions and traditions and questions whose interests are served by institutional arrangements" (p. 81). Theory is then, developed in an historical context, by subjective humans (Howell, 2013).

Critical theory adopts an historical realism stance, where reality is shaped by social, political, cultural, ethnic, and gender factors, then crystallised into a series of structures which are now, inappropriately, taken as 'real', natural and immutable. The structures are, for all practical purposes, 'real', a virtual or historical reality. The investigator and investigated are assumed to be interactively linked, with the values of the investigator inevitably influencing the inquiry. Findings are therefore value mediated, thereby challenging the traditional distinction between ontology and epistemology. What can be known is inextricably interlinked with the interaction between a particular investigator and the particular object or group being investigated.

Guba and Lincoln (1994) argue that the transactional nature of the inquiry requires a dialectical dialogue between the investigator and the subjects of the inquiry to transform ignorance and misapprehensions. This enables historically mediated structures once regarded as immutable, to be transformed into a more informed consciousness.

5.2.2 Constructivist Paradigm

Schwandt (2000) argues that constructivism means that human beings do not find or discover knowledge, so much as construct it. Concepts, models, and schemes are invented to make sense of experience, and are continually tested and modified in the light of new experience. Furthermore, these constructions are made against an historical and sociocultural backdrop of shared understandings, practices, language, and so forth. Constructivist core beliefs involve holistic, multiple realities and the fact that multiple realities raise more questions than answers; prediction and causality are unlikely outcomes of constructivist research although levels of understanding can be achieved (Lincoln and Guba, 1985).

There is a distinction between weak and strong constructivism. Schwandt (2000) links weak constructivism to critical theory through the ideological perspectives of knowledge discovery, generation and accumulation. The weak constructivist methods of organising and analysing

data and identifying cause and effect are contextual and intersubjective in terms of assumptions, beliefs and culture.

Strong constructivism developed through the recognition that language is part of social existence and that evaluation of beliefs depends on the language games from which those beliefs emanate. In this context, Schwandt (2000) held that "the meanings of different language games or different forms of life are incommensurable" (p. 200). Which, as Howell (2013) notes, leads to epistemological relativism, consequently all statements relating to values are community based and so should be treated with suspicion and continually doubted.

Constructivists believe that the act of inquiry begins with issues and / or concerns of participants and unfolds through a 'dialectic' of iteration, analysis, critique, reiteration, reanalysis (Guba and Lincoln, 1989). This leads eventually to a joint construction made by the inquirer and respondents, which can be evaluated for its fit with the data and information it encompasses.

For constructivists, realities are apprehended in the form of multiple, intangible mental constructions, socially and experientially based, local and specific in nature (although elements are often shared among many individuals and even across cultures). Realities are dependent for their form and content on the individual persons or groups holding the constructions. Constructions are not more or less 'true' in any absolute sense, but simply more or less informed and / or sophisticated. Constructions are alterable, as their associated realities change. Friere (1982) argues that "thinking dialectically, the concrete reality consists not only in concrete facts and (physical) things, but also includes the ways in which the people involved with these facts perceive them. Thus in the last analysis, … the concrete reality is the connection between subjectivity and objectivity, never objectivity isolated from subjectivity" (p. 30).

Constructivist epistemology is transactional and subjectivist. The investigator and the object of investigation are assumed to be interactively linked so that 'findings' are created as the investigation proceeds. The conventional distinction between ontology and epistemology disappears as with critical theory. Individual constructions can be obtained and refined only through interaction between and among investigator and investigated, and that varying constructions are interpreted using conventional hermeneutical techniques, and are then compared and contrasted through a dialectical interchange (Guba and Lincoln, 1994).

5.2.3 Summary

The critical theory and constructivist paradigms of inquiry were discussed and related to their underlying philosophical positions. This research is based on socially constructed corporate governance, which is constructed within an historical context, shaped by social factors, as reflected in the critical theory paradigm. However, within the given environmental context of the subject of the study, a weak constructivist paradigm is followed. This is grounded in the view that cause and effect are contextual and intersubjective in terms of assumptions, beliefs and culture. Longino (1993) argues that "the vehicles by which social values and ideology and models are expressed in inquiry and become subtly inscribed in theories hypotheses and models defining research programmes" (p. 263).

The following section describes the grounded theory approach which this research uses, based on a constructivism.

5.3. Methodologies

This research adopts a phenomenological paradigm which recognises the subjective nature of reality, shaped by people who are part of the reality being investigated. Similarly, researchers have implicit and explicit values, which determine what are recognised as facts and the interpretations. An explanation of the grounded theory approach used in this research is now

provided, which describes: first, the general approach; second, a description of coding, thirdly, an explanation of the paradigm model used in the axial coding analysis; and lastly, validity and relevance.

5.3.1 Grounded Theory Approach

Grounded theory is a systematic method of developing theory which is grounded in the data. It proceeds by the researcher alternating between inductive and deductive thought. "Joint collection, coding and analysis of data is the underlying operation. The generation of theory, coupled with the notion of theory as process, requires that all three operations be done together as much as possible" (Glaser and Strauss, 1967, p. 43).

Data can be collected using theoretical sampling, which is the process directed by evolving theory rather than by predetermined population dimensions (Strauss, 1987), and is a pivotal strategy in grounded theory methodology (Charmaz, 2000). Theoretical sampling occurs when "the analyst jointly collects, codes, and analyses his data and decides what data to collect next and where to find them, in order to develop his theory as it emerges" (Glaser, 1978, p. 36). Initial sampling decisions are based on a general sociological perspective and a general problem, but once data are collected and coding begins, the researcher is led in "all directions which seem relevant and work" (ibid, p. 46).

Grounded theory is concerned with "the interpretation of a situation in relation to the course of action rather than calculation alone" (Howell, 2009, p. 225), and such interpretations result in theory building. Glaser and Strauss (1967) argue that while verifying existing theories is the researcher's principal and vital task, the main goal in developing new theories is purposeful systematic generation from the data of social research. They argue that generating grounded theory is a way of arriving at theory suited to its supposed uses. To achieve this goal: it must be able to predict and explain behaviour; be useful in the theoretical advance in sociology; be usable in practical applications; and provide a perspective on behaviour. The theory should

provide clear categories and hypotheses such that the crucial ones can be verified and readily operationalised in quantitative studies when appropriate. This would be achieved by presenting the theory as a well-codified set of propositions, using conceptual categories and their properties, in which there is a feeling of 'ever-developing' to the theory. This would allow it to become quite rich, complex, and dense, and make it fit and relevant and easy to comprehend.

Glaser and Strauss (1967) use the technique of constant comparative analysis to generate middle range: substantive theory, which is developed for a substantive, or empirical, area of sociological inquiry; and formal theory, which is developed for a formal, or conceptual, area of sociological inquiry. Both substantive and formal theories must be grounded in data. Comparative analysis can generate conceptual categories and their conceptual properties, which are concepts indicated by the data (and not the data itself) and hypotheses or generalised relations among the categories and their properties. Generating hypotheses requires evidence only to establish a suggestion rather than building a body of evidence to establish a proof of a hypothesis. The process entails the identification of emerging categories and then accumulating interrelations form an integrated central theoretical framework – *the core of the emerging theory*.

Substantive theory is an integrating scheme arising from the data. This model of integration for substantive theories are not necessarily applicable to other substantive areas, Glaser and Strauss (1967) urge caution in such an extension.

Theory is thus generated using comparative analysis as a strategic method used for obtaining accurate evidence, establishing the generality of a fact, generating substantive and formal theory. While replications are the best means for validating facts, Glaser and Strauss argue that whether the fact is entirely accurate will not be too troublesome, for in generating theory it is not the fact, but the *conceptual category* (or a *conceptual property* of the category) which is

important. The evidence may not necessarily be accurate beyond doubt, but the concept is undoubtedly a relevant theoretical abstraction about what is going on in the area studied.

5.3.2 Coding

Coding means categorising segments of data with a short name which simultaneously summarises and accounts for each piece of data. It demonstrates how you select, separate and sort data to begin an analytic accounting of them, and represents the pivotal link between collecting data and developing emergent theory to explain these data. Charmaz (2006) described grounded theory coding as generating the bones of the analysis, and theoretical integration assembles these bones into a working skeleton. Thus, coding shapes the analytical frame from which an analysis is built; and coding is the pivotal link between collecting data and developing emergent theory to explain these data. Coding *defines* what is happening in the data and begins to grapple with meanings. She argues further that ”we *construct* our codes because we are actively naming data – even when we believe our codes form a perfect fit with actions and events in the studied world. … Coding is our view … Nonetheless, the process is interactive. … we try to understand the participants' views and actions from their perspectives. These perspectives usually assume much more than what is immediately apparent. We must dig into our data to interpret participants' tacit meanings. From the beginning, the process of coding produces tensions between: analytic insights and described events, whether spoken accounts or written observations; between static topics and dynamic processes; and between participants' worlds and professionals' meanings” (p. 47).

The initial coding itself then depends on researcher sensitivity rather than a mechanical process. Charmaz and Mitchell (1996) argue that a mechanistic application of methods yields mundane data and routine reports. They believed that a keen eye, open mind, discerning ear, and steady hand can bring you close to what you study and are more important than developing

methodological tools, and that flexibility rather than strict adherence to process guidelines was preferable in order to use imagination to develop theory.

Howell (2000) argues that "grounded theory constructs substantive theory using theoretical coding is the basis of grounded theory. The essential relationship between data and theory is a conceptual code" (p. 31). Glaser and Strauss (1967) emphasise that joint collection, coding, and analysis of data is the underlying operation. The generation of theory, coupled with the notion of theory as process, requires that all three operations be carried out together as much as possible. Charmaz (1983) states that they serve "as shorthand devices to label, compile, and organise data" (p. 111). Corbin and Strauss (1990) propose the use of open, axial and selective coding. Open coding examines phenomena through comparing and categorising data; axial coding is the restructuring of the whole process by finding connections between the data; and selective coding illustrates how the phenomenon fits around a core category.

The initial objective for grounded theory is to identify categories and properties which are relevant to the theory and allow a level of integration. According to Glaser (1978) "the goal of the analyst is to generate properties which fit, work and are relevant for integrating theory. To achieve this goal the analyst begins with open coding" (p. 56).

Cresswell (1998) states that the purposes of axial coding are to sort, synthesis, and organise large amounts of data and reassemble them in new ways after open coding. Axial coding involves the restructuring of the whole process by finding connections between the data, indicating how the categories created by open coding fit together and congregate around a core category. Strauss and Corbin (1990) state that in "axial coding we continue to look for additional properties for each category and to note the dimensional location of each incident, happening or event" (pp. 114-115). Strauss (1987) sees axial coding as building "a dense texture of relationships around an 'axis' of a category" (p. 64).

5.3.3 Paradigm Model

This research uses the paradigm model (Strauss and Corbin, 1990) in the axial coding process to identify the conditions, actions and interactions, and consequences associated with the phenomenon. This model is then used to establish the relationship among the categories, forming the basis for the selective coding which identifies the core category and its relationships with the sub-categories. This is then used to develop the substantive theory of nonprofit corporate governance. The basic features of the paradigm model are: identification of causal conditions of the phenomenon; a description of the phenomenon; understanding the context; identification of the intervening condition; which leads to a statement of its actions and interactions; and consequences.

Causal conditions are events and occurrences which influence the development of the phenomena, such as being at a certain kind of place or experiencing a particular type of influence (Strauss and Corbin, 1998). Causal conditions are necessary but not sufficient to develop the phenomena, they explain "why and how persons or groups respond in certain ways" (Strauss and Corbin, 1998, p. 130). The identification of a causal condition of a phenomenon requires a systematic reference back to the data for the set of events, happenings or incidents that led to the occurrence of the phenomenon (Strauss and Corbin, 1990).

The phenomenon according the Strauss and Corbin, (1998) is a "repeated pattern of actions/interactions, events, or happenings that represent individual and group responses to problems and situations in which they find themselves …. The phenomenon represents an answer to the question of 'what is going on here'" (p. 130).

The context refers to the particular set of conditions and intervening conditions: the broader set of conditions, in which the phenomenon exists. It denotes "the specific set of conditions (patterns of conditions) at a particular time and place that interact dimensionally to create the

particular circumstances or problems by which individuals respond through blend of action/interaction" (Strauss and Corbin, 1998, p.132).

Intervening conditions are those which "mitigate or otherwise alter the impact of causal conditions on the phenomena" (Strauss and Corbin, 1998, p. 131). These general contextual conditions influence strategies to mitigate or alter the impact of causal conditions.

Action / interaction strategies refer to the actions and responses which occur as the result of the phenomenon. An action represents the stream of actual causal interventions which people use to resolve situations or issues they encounter. Interactions are mutual and reciprocal action or influence. Strauss and Corbin (1998) characterise actions and interactions as strategic or routine. Strategic actions / interactions are purposeful and are intended to resolve a problem or to respond to the unexpected. Routines are the actions / interactions taken in response to everyday life which includes rules, protocols, and ways of acting that maintain the social order. Actions which occur in response to changes in the context, "may be 'strategic' when they are taken in response to problematic situations, or 'routine' when they are carried out without much thought" (Strauss and Corbin, 1998, p.165). Actions / interactions play a significant role in establishing the dynamics between individuals, groups and organisations. This thesis discusses strategic behaviours and director's responses to contexts affecting the strategic actions and interactions, and behaviour of governing boards in ensuring effective corporate governance practice.

The consequences refer to the outcome or results of actions / interactions (Strauss and Corbin, 1998). Whether consequences are intended or unintended, or direct or indirect, they are the larger outcomes associated with the phenomena, rather than specific outcomes for every action / interaction.

5.3.4 Validity

The determination of the way the phenomenon fits around a core category involves the process by which emerging categories are organised and unified around a core category (Corbin and Strauss, 1990). This process addresses the issue of validity, that is, the extent to which the research findings accurately represent what is really happening in the situation. Theoretical coding is a sophisticated level of coding that follows the codes you have selected during focused coding. Glaser (1978) introduced the concept of theoretical codes as a way to specify possible relationships between categories developed through focused coding. Glaser (1992) argues that these codes preclude a need for axial coding because they "weave the fractured story back together again" (p. 72).

Glaser and Strauss (1967) argued that theoretical sampling addressed the issues of *what* groups or subgroups to turn to next in data collection, and for *what* theoretical purpose, in that the basic criterion governing the selection of comparison groups for discovery is their *theoretical relevance* for furthering the development of emerging categories. The types of comparison groups affect the generality of both *scope* of population and the *conceptual level* of the emerging theory.

5.4 The Application of Constructivist Grounded Theory to This Research

The grounded theory methodology is used, which according to Glaser & Strauss (1967) is "faithful to the everyday realities of a substantive area is one that has been carefully induced from diverse data … Only in this way will the theory be closely related to the daily realities (what is actually going on) of substantive areas, and so be highly applicable to dealing with them" (pp. 238-239).

Charmaz (2000) argues that the grounded theory of Glaser, Strauss and Corbin remains imbued with positivism, with its assumptions of an objective, external reality, a neutral observer who discovers data. She believes the nature and connections between objective and subjective

realities to be a key issue. Schwandt (1998) argues that one can "reasonably hold that concepts and ideas are invented (rather than discovered) yet maintain that these inventions correspond to something in the real world" (p. 237). Corbin and Strauss (2008) concurred with the constructivist view that "concepts and theories are *constructed* [emphasis in the original] by researchers out of stories that are constructed by research participants who are trying to explain and make sense out of their experiences and / or lives. Out of these multiple constructions, analysts construct something they call knowledge" (p. 10). Schwandt (1998) says that most would agree that "knowing is not passive – a simple imprinting of sense data on the mind – but active; mind does something with these impressions, at the very least forms abstractions of concept. In this sense, constructivism means that human beings do not find or discover knowledge, so much as construct it. We invent concepts, models, and schemes to make sense of experience and, further, we continually test and modify these constructions in light of new experience" (p. 237).

Charmaz (2006) argues that objectivist grounded theory assumes that data represent objective facts about a knowable world: the researcher finds them and 'discovers' theory from them. Objectivist grounded theorists believe that the careful application of their methods produces theoretical understanding. Therefore, the objectivist proponents argue for a stricter adherence to grounded theory steps than would constructivists. The constructivist approach assumes an obdurate, yet ever-changing world but recognises diverse local worlds and multiple realities, and addresses how people's actions affect their local and larger worlds. Thus, those who take the constructivist approach aim to show the complexities of particular world, views and actions.

Corporate governance operates within the historical and social context and the generally accepted theories which shape the individual's and society's views of how people should act. Corporate governance is socially constructed; a social process that places emphasis on the dynamic nature of social reality (Letza et al., 2004; Letza et al., 2008), which strongly discount

a positivist or post positivist view of the existence of a single objective reality. The framework does however correspond to the ontological stance of critical theory, in that it is historically shaped principally by social, political and cultural factors and is deeply connected with the concepts of power and ideology. However, at the level of each organisation, realities are constructed within the overall cultural, economic and legal frameworks by the boards and the interaction of the individuals within each board and the broader organisation. This accords with the constructivist view that reality is constructed by individuals in a form of multiple, intangible mental constructions as they assign meaning to the world around them. Thus, meaning does not lie dormant within objects waiting to be discovered; but is rather created as individuals interact with and interpret these objects (Crotty, 1998; Howell, 2013). According to Graham and Thomas (2008) the researcher and researched interact "so that the 'findings' are literally created as the investigation proceeds" (p. 111).

Research into nonprofit corporate governance and board dynamics highlights the need to understand how norms of board practices, exported from the private sector, operate within the nonprofit organisations. The research question centres upon the issue of providing, theoretical explanations of behaviour which must allow for process, and recognise context and change (Goulding, 2000). Grounded theory can be used to allow theory to emerge from the particular corporate governance processes and contexts (Strauss and Corbin, 1998).

The research therefore follows a constructivist grounded theory approach as proffered by Charmaz (2003, 2006) as an alternative to the classic (Glaser 1978, 1992, 2003, 2005) and Straussian grounded theory (Strauss and Corbin 1990, 1994, 1998; Corbin and Strauss, 1990). The constructivist approach "reaffirms studying people in their natural environment" (Charmaz, 2000, pp. 509-510), and follows the approach of Charmaz (2006), for whom grounded theory can be viewed as a set of principles and practices, rather than as prescriptions or packages, and grounded theory methodology should be used as flexible guidelines rather than rules, recipes

and requirements. Furthermore, grounded theory methods can complement other approaches to qualitative data analysis, rather than stand in opposition to them. Thus, ethnography and elite interviews are used as data collection methods for this research, as described in Section 5.5, within the framework of grounded theory methodology. This allows a wide range of data sources to be used, and which helps the researcher to gather various perceptions and viewpoints on the problem (Glaser and Strauss, 1967).

5.5 Methods

Mertens (2005) considered that, in terms of the chosen paradigm, the "researcher's theoretical orientation has implications for every decision made in the research process, including the choice of method" (pp. 3-4). A research method comprises a set of specific procedures, tools and techniques to gather and analyse data. The way in which data is collected and the mode of analysis is determined by the methodological approach and the philosophical position which guides that approach. However, Patton (1999) argues that what is important is the "appropriateness of methods for the specific evaluation research purpose and question, not adherence to some absolute orthodoxy that declares one or the other approach to be inherently preferred" (p. 1206).

The research is based within a phenomenological paradigm, using constructivist grounded theory. The qualitative methods used in this research are based on a combined ethnographic and grounded theory approach which uses participatory observation, and interviewing. Both participatory observations and interviewing have a significant subjective element of interpretation; as Denzin and Lincoln (2005) observe "[t]he socially situated researcher creates … those realities and representations that are the subject matter of inquiry" (p. 641). The ethnographic approach, as applied to the study of boards, can also be argued to be biased in favour of the world view of those at the top of the organisations and those easy to access, and can thereby lack analytical rigour and outcome (Delamont, 2009).

The relationship between ethnography and grounded theory is now considered in the next section, followed in the succeeding two sections by discussions on ethnographic participatory observations and interviewing with special emphasis on the 'elites' who are the principal research subjects.

5.5.1 Ethnography and Grounded Theory

Ethnography focuses on the manner in which people interact and collaborate in observable and regular ways (Gill and Johnson, 2010). The aim of ethnographic research is to see the world through the eyes of the members of the culture being examined in naturally occurring conditions and to document the social interactions among these members (Arnould and Wallendorf, 1994; Barnes, 1996; Belk et al., 1988; Longabaugh, 1980; Pettigrew, 2000). Researchers who use ethnography, immerse themselves in a social setting for extended periods of time, observing behaviour, listening to what is said in conversations, with the aim of interpreting the social world in the way that the members of that particular world do (Collis and Hussey, 2003). Grounded theory and ethnography are argued to be highly compatible with ethnographic studies able to provide the thick description which can produce useful data for grounded theory analysis (Pettigrew, 2000).

According to Charmaz and Mitchell (2001), "using grounded theory methods can streamline fieldwork and move ethnographic research towards theoretical interpretation. Attending to ethnographic methods can prevent grounded theory studies from dissolving into quick and dirty qualitative research" (p. 160). Thus, a grounded theory study takes a different form to other types of ethnographies by giving priority to the studied phenomenon or process-rather than to a description of a setting.

The grounded theory data collection and analysis processes are in part based on the researcher's values and experience, and as such cannot claim scientific neutrality. Researchers and research participants make assumptions about what is real, possess stocks of knowledge, have social

statuses, and pursue purposes that influence their respective views and actions in the presence of each other. Grounded theory methods do however, move ethnographic research towards theoretical development by raising description to abstract categories and theoretical interpretation by preserving an open-ended approach to studying the empirical world yet adding rigour to ethnographic research by building systematic checks into both data collection and analysis.

5.5.2 Participatory Observations

Observation has been characterised by Adler and Adler (1994) as the "fundamental base of all research methods" in the social and behavioural sciences (p. 389) and by Werner and Schoepfle (1987) as "the mainstay of the ethnographic enterprise" (p. 257). Social scientists mainly conduct observation-based research through participant, reactive or unobtrusive observations. Participant observation requires a long-term immersion in the everyday life of that community. In reactive observation, people are aware of being studied and are amenable to interacting with the researcher only in response to elements in the research design; and in unobtrusive, non-reactive, observation people are unaware of being studied (Angrosino, 2005). Denzin and Lincoln (2005) caution that there is no pure, objective, detached observation and therefore the effects of the observer's presence can never be erased.

The importance of direct observational research on corporate elites is accepted (Brannen, 1987; Winkler, 1987); but its importance is matched by its difficulties (Thomas, 1995; Useem, 1995). Cormode and Hughes (1999) note that research into elites presents very different methodological and ethical challenges from studying non-elites. These differences relate to the characteristics of those being studied, power differentials between the elite and the researcher and the politics of the research process (Moyser and Wagstaffe, 1987; Hertz and Imber, 1993). This research overcame these issues by the use of an ethnographic approach, where the

researcher was a member of the 'corporate elite' under investigation within the UK nonprofit sector.

5.5.3 Interviewing

The interview is one of the most, if not the most, commonly used research tools in social science (King, 2004) and in political science (Berry, 2002; Lilleker, 2003; Richards, 1996). Holstein and Gubrium (1995) estimate that "90% of all social science investigations use interviews of some sort" (p. 1). Burnham et al. (2004) characterise elite interviewing as "a situation in which the balance is in favour of the respondent" (p. 205), and this can lead to additional challenges in gaining access and the respondents' tendency to seek to control the agenda (Burnham et al., 2004; Bygnes, 2008).

The interview is not a neutral tool, rather it is a conversation which produces situated understandings grounded in specific interactional episodes. Interviews are also influenced by the personal characteristics of the interviewer, such as class, ethnicity, and gender (Atkinson and Silverman 1997; Denzin and Lincoln, 2005; Fontana, 2002; Hertz, 1997; Holstein and Gubrium, 1995; Scheurich, 1995). Furthermore, Fontana and Frey (2005) assert that "interviewing is inextricably and unavoidably historically, politically, and contextually bound" (p. 695).

Fontana and Frey (2005) explain that while the most common form of interviewing involves face-to-face verbal interchange, it can also take the form of face-to-face group interchange and telephone surveys. The interviews can be structured, semi-structured or unstructured. Structured interviewing aims to capture precise codable data to explain behaviour within pre-established categories. This is achieved by the interviewer asking all respondents the same series of pre-established questions with a limited set of response categories. Semi-structured and unstructured interviews evolve as the individual interviews proceed and information is gathered from one interview to the next. Howell (2013) argues that this reflects the inductive

discovery process. Fontana and Frey (2005) observe that unstructured interviewing attempts to understand the complex behaviour of society without imposing any *a priori* categorisation that may limit the field of inquiry.

This research included unstructured interviews of members of the nonprofit corporate elite for the purposes obtaining theoretical saturation. Lilleker (2003) defines elites as "those with close proximity to power or policymaking" (p. 207) or those with particular expertise (Burnham et al., 2004). Underlying governance and political theories are created and interpreted by corporate elites; and these elites have determined every notable case of corporate governance reform in the UK which have been achieved through self-regulation (Price, 2016). These key reforms are Cadbury (1992), Greenbury (1995), Hampel (1998), Turnbull (1999), Higgs (2003), Walker (2009) and Kay (2012). This system of self-regulation means that corporate elites are central to the process of governing. The elite, in the context of this research, refers to executive and non-execute directors, chairmen, and chief executives.

May (2001) observes that elite interviews can "yield rich insights into people's biographies, experiences, opinions, values, aspirations, attitudes and feelings" (p. 120), and provide insights into events within the corporate 'black box'.

According to Berry (2002) the paradox of elite interviewing is that the valuable flexibility of open ended questioning exacerbates the validity and reliability issues that are part and parcel of this approach. While open-ended questioning is the riskiest but potentially most valuable type of elite interviewing, it requires interviewers to know when to probe and how to formulate appropriate follow-up questions. Davies (2001) observes that qualitative interview data tend to be cast in terms of the exploration of respondents' perceptions and sensibilities rather than the factual accuracy of those perceptions. He then argues that, for validity reasons, interview data is best reinforced by other forms of data through triangulation with such sources as interviews and documentary sources, and published secondary-source information. The use of any one

method on its own exposes the research to the criticism that it does not adequately shed light on a phenomenon. This can be addressed by triangulation by using multiple methods, which helps to facilitate a deeper understanding. Triangulation methods include: consistency checking by using different methods of data collection; examining the consistency of sources from within the same method; use of multiple observers and analysts; and the application of different theoretical perspectives to examine and interpret the data (Denzin, 1978; Patton, 1999).

As Sarantakos (2005) observes, the constructivist paradigm seeks meaning which actors use to make sense of their world, and does not search for an objective meaning independent of those actors. So that when researchers are looking for meaning (Lilleker, 2003; Richards, 1996), the semi-structured or unstructured interview method is a valid technique (Sarantakos, 2005).

McEvoy (2006) also argues that the identity of the interviewer can represent an important dynamic in the interview, where the interviewee makes assumptions about the researcher's identity and tailor responses accordingly. The researcher's actual or perceived membership of the interviewee's group provides a specific framework for data collection and analysis; for example the basis of the researcher being a 'complete member' of the study settings in which they are already members (Adler and Adler, 1987).

5.6 Conclusion

This chapter provided the philosophical perspective for the research based on the concepts of reality, truth, knowledge and theory, using the phenomenology of Husserl, Heidegger and Merleau-Ponty, and pragmatist philosophy. The critical theory and constructivist paradigms were described in terms of their associated ontologies and epistemologies. The chapter then considered methodologies in more detail, with focus on phenomenology and grounded theory. The rationale for using a constructivist grounded theory methodology was then set out, based on the match between the socially constructed nature of corporate governance and the

underlying combination of pragmatic and symbolic interactionist position of grounded theory. As Charmaz (2006) notes "the world is very complex, with events being the results of multiple factors coming together and interacting in complex and often unanticipated ways. Therefore, any methodology that attempts to understand experience and explain situations will have to be complex" (pp. 6-7).

The use of the constructivist paradigm to underpin the research methodology was then justified on the basis of these characteristics, the research problem and the complexity of the phenomenon being investigated. It was argued that constructivism shares the same philosophical assumption as this research, in leaning towards the subjective meanings of socially constructed phenomena. The basic processes for inductively developing a grounded theory were then described, through the constant comparison method and various coding processes. The qualitative methods of data collection: participatory observation and interviewing were discussed. Specific emphasis was placed on dealing with 'elites', who are the main research subjects.

Flexibility in approach is emphasised by Charmaz in constructivist grounded theory approach and by Patton (1999), who noted that in choice of methods "the issue is the appropriateness of methods for the specific evaluation research purpose and question, not adherence to some absolute orthodoxy that declares one or the other approach to be inherently preferred" (p. 1206).

The following chapter describes the data collection, coding and analysis based on the perspectives set out in this chapter.

CHAPTER 6: Data Collection, Coding and Analysis

This chapter describes the iterative processes used to collect and analyse data using grounded theory processes and to develop a substantive theory. These processes comprise:

- data collection, which allows advantage to be taken of emergent themes;
- analysis using; open codes to develop concepts, categories, axial coding to develop connections between categories and sub-categories, and selective coding to integrate categories to build a theoretical framework; and
- theoretical sampling which confirms, extends and sharpens the theoretical framework until theoretical saturation is achieved.

These processes include reference to existing literature in order to improve the internal validity through definition of constructs and external validity by establishing the domain to which the research findings can be generalised (Pandit, 1996).

This chapter is divided into sections which describe:

(i) the ethnographic methods used in the data collection and coding;

(ii) the theoretical basis of open coding and how the initial open codes were generated;

(iii) the generation of concepts from the open codes;

(iv) the development of open categories and sub-categories;

(v) the inter-relationships between categories and sub-categories to yield suggested propositions;

(vi) axial coding process;

(vii) two related models of nonprofit corporate governance which identity five axial codes;

(viii) the analysis of these axial codes using the paradigm model;

(ix) the identification and interpretation of the core category;

(x) the development and testing of key concepts and categories through theoretical sampling, and their consolidation to provide the basis for the development of the substantive theory; and

(xi) the chapter summary.

6.1 Data Collection

This section describes the methods used in the data collection and how this data was recorded and coded. Since the data collection was carried out using ethnographic methods, which are recognised to be subjective, the issue of subjectivity is considered in the first part of this section. The second part of this section then describes the data collections itself. The method of analysis of the data and the generation of open codes are discussed in Section 6.2.

6.1.1 Subjectivity

As discussed in Section 5.5.1, ethnographic research attempts to describe occurrences as they are experienced by the subject (Arnould and Wallendorf, 1994), thus there is lack of objectivity in most ethnographic research (Atkinson, 1992; Johnson, 1990). By acknowledging the subjective, partial, and local nature of the analysis, ethnography claims only to provide one interpretation of the phenomenon of interest; potentially one of many. The issue of subjectivity is addressed through the concept of reflexivity; two important aspects of which concern: researcher reflexivity as the means of purposely thinking about the researcher's position in relation to his own research; and secondly as a way for social actors to consider their social positions, potentially provoking habitus and field change (Bourdieu, 1990). Researcher reflexivity is the reflective, interpretive and recursive process by which researchers consciously and continuously take into account how their assumptions, decisions and behaviours influence themselves and their work (Alvesson and Sköldberg, 2009; Haynes, 2012; Hibbert et al., 2010). Interpretation means that when engaging in such reflections, researchers probe deeper, seeking to establish possible reasons and implications of their (inter) actions (Alvesson and Sköldberg,

2009). Recursion means that researchers amend their research practice in the light of new insights gained through reflection and interpretation (Hibbert et al., 2010).

Bourdieu (2003) spoke of "participant objectivation," as "the *objectification of the subject of objectification*, [original emphasis] – in short of the researcher herself" (p. 282). It aims at objectivising the subjective relation to the object which, far from leading to a relativistic and more-or-less anti-scientific subjectivism, is one of the conditions of genuine scientific objectivity (Bourdieu, 2001).

6.1.2 Data Collection

Gaining access in order to carry out research directly within the 'black box' is traditionally regarded as being difficult (Gay, 2001; Long et al., 2005; Pettigrew, 1992). The "secrecy in which matters of the board room are conducted make corporate boards 'black boxes', which have public effects but whose inner workings are never publicly known" (McAlmon, 1981, p. 26). Direct access is however important to an understanding of board processes. These processes include the roles of the board of directors, how directors relate to one another as a group, how the board interacts with management, and how decisions are made, both inside and outside the boardroom (Leblanc and Schwartz, 2007).

The data was collected using participatory observations, in the researcher's role as non-executive board member. There was a total of thirty six separate ethnographic participatory observations comprising: twelve board meetings, ten board committee meetings; five *ad hoc* board appointed working groups; and nine large meetings or conferences of practitioners. An analysis of the sources of the data is provided in appendix 1.

Contemporaneous written notes were made at each meeting. After the meeting, these notes were analysed against each item on the meeting agenda as well as overall observations, where appropriate. The meetings were analysed under the headings of: observations; comments; key

issues; and open coding. The observation provides a short description of the item under consideration, and the commentary provides initial reflections relating to the observation and a discussion of the item. The statement of the key issue extracts the analytical point, which is then carried forward into one or more a uniquely referenced open codes. This process is described in more detail in appendix 2.

6.2 Open Coding

Open coding refers to that part of analysis that deals with the labelling and categorising of phenomena as indicated by the data as described in Section 5.3.2. Open coding requires application of 'the comparative method' where data are compared, and similar incidents are grouped together and given the same conceptual label.

As the data collection progressed through the participatory observations, as described in Section 6.1 above, additional open codes were identified. The iterative nature of data collection meant that previous data were then reanalysed. This led to the generation of new key issues and new matchings of existing key issues and open codes. The open codes were assigned by reviewing the key issue against all existing open codes, and where found to be relevant the existing code was assigned to that key issue. Further, the existing open code could be added to, or amended as the result of this matching exercise. A new open code was created when one did not exist, or the key issue provided a nuance for existing codes. In any one data collection, there were also several key issues which related to the same point and so were assigned the same open code – thus it is possible to have fewer open codes than key points. The last few data collections generated one or no new open codes, which provided an indication that theoretical saturation had been achieved. The full list of open codes is presented in Table 1. The way in which the open codes were used to develop concepts and categories is described in Section 6.3.

6.3 Concepts and Open Categories

The product of labelling and categorising are concepts, which are the basic building blocks in grounded theory construction. Strauss and Corbin (1998) define a concept as an "abstract representation of an event, object, or action or interaction that a researcher identifies as being significant in the data" (p.103). Concepts which accurately capture thoughts and meanings of participants are thus developed under the groupings of:

(i) Political, regulatory and ethical environment;

(ii) board functions, structures and processes;

(iii) challenge;

(iv) relationships; and

(v) motivations.

These concepts, which are presented in Table 2 'Concepts and Categories', are now considered in terms of their components with examples from the participatory observations and interviews.

6.3.1 Political, Regulatory and Ethical Environment

This environment conceptual code grouping is described in terms of: (i) political and regulatory issues which derive from the neoliberal ideology; (ii) social purpose, values and moral duty; and (iii) interactions between these two elements.

(i) Political and regularity issues

The political environment defines the regularity regimes which are key drivers for the nonprofit sector. The government delivers its priorities and statutory duties through these regimes.

> A National Housing Federation (NHF) director provided a background briefing on the political situation and the priorities of the NHF to a meeting of chairs, chief executives and non-executive directors. He emphasised that the general political environment is a key driver for the sector. Another NHF senior official then argued that this environment

and its general political attitudes drove the creation of policies which directly affected all sector organisations.

Although each nonprofit sub-sector has its own regulatory regime, the concept concerns the regulatory environments generally and the responses of those who are regulated.

At a board meeting, a director of the regulatory authority stated that the regulator is "the delivery vehicle, it does what the government wants". He continued that, "one of its roles is to ensure that the sector is efficient. However, the sector continues to have a bad reputation for inefficiency. There are no real commercial market mechanisms in the sector which will drive efficiency, neither can the government control the sector directly by cutting budgets."

The regulatory and wider value regime builds a culture of conformity which provides a means of ensuring the delivery of government policy through compliance, along with the acceptance of good corporate governance practice.

A training session for school governors was based on a National Governors Association (NGA) document in which it was stated, that it was intended to set the culture and values for governance in the state education sector.

The Department for Education (DfE) Handbook on Governance sets out the responsibilities of governors, using accepted corporate governance best practice and applies that to the sector. The guidance sets out the view of the government department on the best way that governance should be carried out by the very large number of school governors. It also provides the basis for the checking compliance against departmental guidance is part of the regulatory regime (OFSTED).

The regulator drives compliance through enforcement mechanisms, such as inspections, which are aimed at strengthening the culture of 'conformity' and 'encouraging' non-executives to understand the sector.

> At a board meeting, a background paper on welfare reform was presented as the executive director said, because "for the In-Depth Assessment (IDA) it is necessary to demonstrate that we are aware" of the relevant legislative issues.

The response to regulation is, however, ultimately built on the public view of nonprofit sector ethos and values. These values include collaboration as opposed to competition as a core nonprofit belief (orthodoxy), which opposes the perceived individualism of neoliberalism.

> At a county wide governors' conference; a chair of school governors, and a nonprofit non-executive director, stated his belief that while schools are distinguished by their specific values and ethos, there was a tension between the system which encourages competition between schools and of the principle of collaboration. The point is summarised by the statement made by the meeting chairman that "collaboration is a core belief which opposes the individualism of neoliberalism". The meeting agreed with this view.

(ii) Social Purpose, Values and Moral Duty

Social purpose is central to all nonprofit organisations which act in accordance with an ethical stance of providing for its clients, with an antipathy towards the private sector.

> An inspector from the Care Quality Commission (CQC) stated at a regional school governors meeting that: "our central purpose is to make a difference to the life chances of children and young people".

There may not be a single interpretation of social purpose within an organisation or sector.

> At a board task and finish meeting the emphasis and interpretation of the organisation's social purpose were debated. The non-executives emphasised the provision of as much housing as possible to help alleviate the national housing crisis, while the executive directors focus was on providing a good service to existing service users. The board subsequently agreed, as part of its strategic review, that the organisation must "provide the best possible service to its existing tenants as well as 'doing its bit' towards solving the housing crisis by building as many houses as it could while maintaining financial viability".

The board has a responsibility to set the values of the organisation, but these are grounded in those of the sector as a whole.

> In an unstructured interview, an ex-chief executive of several nonprofit organisations commented on the importance of commitment to the values of the organisation, such as its community focus, and the range of services to help and support residents. He also stated that the board is responsible for "setting and ensuring compliance with strategic objectives and values, financial risk and risk management and ensuring a proper framework of delegation and internal controls."

The ethical concept of moral obligation underlies the sector.

> At a regional Multi-Academy Trust (MAT) meeting, a school chairman and non-executive director stressed the need for schools to collaborate to develop and to achieve their objective of providing the best possible education for children. He stated his belief that "there was a moral obligation to make the school a sustainable body in the community".

(iii) Interactions Between the Political / Regularity Regimes and Nonprofit Sector

The interactions between the political environment, regularity regimes, and the social and morality based ethos of the nonprofit sector are important factors in the ways in which boards and organisations operate. These interactions may be broadly summarised as: the regulatory regimes seeking to ensure sector conformity and compliance; and nonprofit organisations complying, reacting, and seeking to influence the regulatory regime.

The government recognises that it must deliver its policies through boards and professional groups which do not necessarily agree with those policies. It therefore seeks to create regulatory regimes which are based on legal, moral, and intellectual authority.

Guidance is created which aims both to set the culture and values for governance, based on agency theory as the accepted corporate governance best practice, with specific application to the relevant sub-sector.

> Education sector guidance on governance, used in sector training, is produced by an independent organisation with the aim of improving the effectiveness of governance to the benefit of the social purpose.

The board acts to maintain the skills of its members in support of its role as an effective board, which is also evidence of good governance for the regulator.

> At a board committee which had the remit to oversee governance processes, a paper was presented on the result of the detailed cyclical review of governance documents carried out by the company secretary. The committee considered the changes specifically in terms of a review of best practice and for regulatory evidence. The anti-fraud and corruption policy was similarly reviewed at the audit committee.

The aim of promoting the professionalisation of boards is intended to achieve the goal of increased efficiency. This professionalisation can also be seen as an attempt to exert indirect, cultural control, which is required because direct government control is not possible.

> An official from the regulator presented an update to the board on the effects of deregulation. He observed that deregulation lessens government control, and will give greater autonomy to individual organisations and their boards. However, it also will affect the attitudes of [bank] lenders, since they rely heavily on the implied support the sector receives from government control of the sector.

Government policy, as interpreted and agreed by the board, is implemented by sector professional managers, members of the professions (such as accountants), and the SMT in accordance with sector norms and tradition. That is, the government must deliver its policies through professional groups which do not necessarily agree with it.

> At a meeting organised to promote professional support for the reorganisation of schools into academies, many education professionals spoke against the principle, but as one head teacher said: “we are law abiding and will implement the law”.

These professional groups have a strong influence on boards, but the regulatory authorities seek to counter this.

> A director of the housing regulator argued at a board of a regulated organisation that: “In fact, the state does have significant levels of control”.

For example, funding mechanisms are used as a means of driving the implementation of government policy.

> At a meeting of educational leaders convened to encourage schools to become academies, a representative of the Regional Schools Agency (RSA) observed that “the government delivers its education policies through regulation and funding rules.”

The creation of inspection regimes is required because boards have greater autonomy and professionalism, which lessens the government's ability to directly control organisations. Inspections may result in publication of results, 'league tables, and 'naming and shaming'.

Nonprofit organisations recognise the legitimacy of political environment and regulatory regimes; and regulatory compliance is upmost in the minds of both the board members and the executive. However, this does not necessarily mean that practitioners agree or support the underlying politics. Boards are populated by people who have a world view dominated by a public service ethos, even though they may have roles in the for-profit sector which require a different view. This public service ethos affects the decisions made by the board and the way in which they function.

> This world view affects the decisions made by the board convened for the purpose of reviewing the organisation's strategy, a member said: "I understand how we provide services which are beyond our core business, but we need to be clear why we provide them". In the ensuing discussion it was agreed that the organisation provides them because it fits within the board's and executive view of 'wider social purpose'.

6.3.2 Board Structures and Processes

The board structures and process conceptual grouping identifies issues relating to the: interactions of structures and processes. The concept is discussed in terms of: (i) nonprofit board structure and action; (ii) trust, (iii) decision making.; and (iv) the SMT as a sector norm.

(i) Structure and Action

The composition of nonprofit boards range from comprising only non-executive trustees through to having a majority of trustees plus executive directors.

> In an unstructured interview with a person who is both an NHS non-executive director (NED) and a non-executive director of a charity in the care sector; the interviewee

observed that the "board roles of directors were dependent upon formal structure", ie the number of non-executives and executives. He explained the point in more detail. "NHS Foundation Trusts (FT) boards are unitary boards, where executives are party to the decisions alongside NEDs. This requires a well-developed sense of the respective roles and the ability to switch seamlessly from challenging and supporting them to simultaneously performance managing them. In the charity sector, where, generally speaking, executives report to, rather than being part of the board, the relationships are different in subtle but important ways."

Boards conduct most of their business in meetings on the basis of papers prepared by the SMT, and these meetings have their own protocols, formality, rituals, management, and (formal and informal) codes of conducts. While the board structure is defined, its operation depends upon the actions and interactions of its directors and supporting staff.

The participatory observations of board and committee meetings determined that: meetings are properly planned, and the agenda items reflect those items which are important; the chair seeks always to ensure the full and relevant participation of members, while at the same time, attempting to ensure that the meeting progresses according to the planned time; there is an appropriate level of, and response to, challenge; and decisions are made.

The observations of meetings also concluded that: there was a wide range of participation in meetings by board members; and that some members were clearly dominant in the sense that their views were generally well regarded.

(ii) Trust

Board processes are reliant upon trust between its own members and the executive to properly fulfil the board's responsibilities.

At a confidential board session, the board entrusted a small task and finish group to conduct sensitive negotiations on behalf of the board.

The board trusts its committees and *ad hoc* groups to carry out detail work and make proposals; but retains the power of formal ratification of the proposals made by the groups.

The board delegated a task and finish group to formulate a major development bid, trusting the experience of the non-executives and the executives on the group. Although the bid was subject to formal ratification by the board, the bid deadlines effectively gave the task and finish the power of decision.

The board must also put its trust in executive colleagues and information provided by them. (This trust however does not extend to uncritical acceptance).

In an unstructured interview, an ex-chairman stated that "in practice there was no option but to trust the chief executive and executive directors".

(iii) Decisions

Both strategic and operational decisions are made by the board on the basis of formal papers presented to it at its meetings, and the political context as assessed by the board. However, decision making is not a single event, rather the board decision is the final part of a process. This process always includes the SMT and may also involve the board during the development of the recommended decision.

A discussion paper concerning strategy was presented to the board by the chief executive to provide an opportunity for formal board input to the strategic planning process.

(iv) The SMT as a Sector Norm

The legally constituted board is responsible for the organisation, but the existence of the SMT is a sector norm. It which has power over the organisation and has great influence on the board,

thereby effectively operating as a part of the board with power but no legal responsibility, which can be argued to represent a *de facto* dual board.

6.3.3 Challenge, Oversight and Assurance

A challenge is a: call to someone to participate in a competitive situation or fight to decide who is superior in terms of ability or strength; or to prove or justify; or to dispute the truth or validity of something.

Oversight is achieved through challenge and assurance. Challenge is accepted as a key function in corporate governance generally. The concept is expressed as an interactive process and as a potential, takings place in various arenas and forms.

> The meaning of 'challenge' was discussed in an unstructured interview with a chief executive, who said that it should be seen as: "querying, clarifying, seeking justification, and arguing."
>
> At a MAT conference, the regional lead for educational contractors argued the vital importance of the challenge role of governors through consistently following up on priorities and promises of the executive. This meant consistency in following up on priorities and promises, openness in discussing significant issues, the quality of engagement and responding to feedback.

Challenge is an interaction which is associated with power relationships. Thus, while non-executives challenge executives, there is less 'challenge back' from the executive, and no executive to executive challenge.

> At an unstructured interview with a number of chief executives, executives, and chairmen, it was agreed that the board must challenge. One chief executive differentiated challenge to that between: non-executive to executive; executive to

executive; and non-executive to non-executive. In discussion it was noted that non-executive to executive challenge is normal practice.

Board member understanding of issues is often dependent on information from the executive in the first instance, and then interpreted by board members using their experience and professional backgrounds. Board challenge often relies upon board members with the specific expertise when querying technical papers. This challenge is often isolated and uncoordinated and of little effect.

> At a board meeting a pattern of isolated challenge was observed on a financial matter when one non-executive challenged the finance director on a matter, without support from the other non-executives.

Providing support to the executive and exhibiting critical challenge are not mutually exclusive. The board and its chair can act as a 'critical friend' to the executive.

> In an unstructured interview, a chief executive saw the relationship of the chair with the chief executive as sharing a common objective and acting as a 'critical friend' who provides continued support and encouragement.

Assurance is obtained from both internal and external sources such as the auditors.

> The audit committee received a report from the company secretary which provided assurance that the terms and conditions of the chief executive and executive comply with all the principles of the NHF Governance Code and expectations.

6.3.4 Relationships

The relationships between board members, the executive and the organisation, are important drivers for the ways in which boards operate. The concept describes these relationships in terms of: social groups; personal relationships; and the key relationship between the chair and the

chief executive; For the nonprofit sector, the issues of identification and socialisation; with the organisation and with stakeholders are salient.

Social groups exist and as part of them, ingroups and outgroups on the board. This is indicated by the different levels of participation of members at board, committee and task and finish groups, and the weight attributed by the meeting to the contribution of individuals.

While the relationships between the chief executive, executive directors and board members are important, that between the chair and the chief executive is particularly so. The main way in which the board oversees the organisation is through oversight of the chief executive by the chair.

> In an unstructured interview a chair noted that he had regular meetings with the chief executive for reasons which included this purpose; and emphasised the importance of a constructive working relationship between the board and the chief executive, particularly for good governance and the delivery of results.

6.3.5 Motivations

The final concept brings together open codes relating to the motivations of the chair, non-executive directors, executive directors. The subject of motivation in nonprofits was discussed in Section 3.11.3 above, and is now developed here with a focus on: (i) altruistic values; (ii) moral duty; (iii) public spirited values; (iv) egoistic purposes; and (v) self-esteem. The motivations of the regulator are then discussed in terms of (vi) professionalisation of the board; (vii) power; and (viii) both career and moral motivations of the executive.

(i) Altruistic Values

Non-executive board members serve on boards for reasons not associated with direct remuneration.

> A meeting of the board remuneration committee considered board remuneration policy. The meeting agreed that remuneration was not a real issue and was not currently affecting board member recruitment. The chair of committee noted that "when I first joined the board, members were not paid at all."

Commitment to social purpose is the key to the recruitment of board members.

> When the board was discussing strategy at a board awayday it was noted that board members agreed the organisation's 'wider social purpose'.

(ii) Moral Duty

Non-executives seem to be driven substantially by moral duty.

> In a meeting of chairs and chief executives it was agreed that "the most important values related to social purposes of helping the disadvantaged", and that "this was common to the health, social services and housing sectors".

(iii) Public Spirited Values

There appears to be a link between the reasons why executives are employed in the nonprofit sector, and their motivations and beliefs.

> An NHS NED observed in an unstructured interview that "NHS chief executives receive well below anything that they could receive in the private sector. NHS trusts are very large and complex organisations and probably more difficulty to manage than comparably sized companies, but an NHS chief executive who was paid say £350k would get well over a million [in the private sector]".

It can be argued that this is due principally to the public sector culture and ethos, and public attitudes to public sector pay. It seems reasonable to assume that there is some link between the intrinsic motivation of executive and their choice to work in the public sector. It seems that

this may be brought on through socialisation into sector norms or basis belief (or through some predisposition).

(iv) Egoistic Purposes

The instrumental motive of personal betterment, that is the use of nonprofit non-executive positions to further an individual's career as an executive by strengthening the CV, is not unknown.

> In an unstructured interview, a chairman observed that this [instrumental motive] is unusual, but recounted that a board member had been recruited for specific skills, but during the recruitment interview had stated that their main aim to gain experience to future their career. The chair stated that he "saw no problem with this statement".

(v) Self-esteem

Self-esteem is an intrinsic motivation, not confined to the nonprofit sector. It seems however to be associated in some way with moral duty.

> In an unstructured interview with a vice-chair of nonprofit organisation, (who is also a director of a property company, and an ex NHS NED), the interviewee stated that "I have always given a lot of my time to charities, it is important to me …[but] I have decided that I will not serve on charity boards which do not pay. … It is not for the money, but a recognition that my services are valued."

(vi) Professionalisation of the board

Boards are created with greater autonomy and professionalism through NPM, but this lessens the ability of the government to directly control a sector. This thesis conjectures that the concomitant professionalisation of boards is viewed as a way of exerting indirect (or cultural) control, which is lessened by the felt 'moral obligation' of those professionals to sector 'clients'.

The external political emphasis on 'efficiency' is a key driver to activity but does not override social purpose.

(vii) Power

The concept of power has been discussed previously in this thesis. Power and self-interest are motivations common to both the nonprofit and for-profit sectors. There are power relationships between the board, chief executive, and the executive directors. The power of the chief executive over the executive is manifest at every meeting, and the executive directors always defer to the chief executive. At each meeting the authority of the chair to direct and obtain consensus is clear, but the chief executive, by virtue of having: the ability to control the detail of the board papers; the status of position; knowledge; authority over the executive; and influence over the chair carries a significant weight on the board.

(viii) Motivations of the Executive, Including the Sense of Moral Duty

The executive directors are also motivated by social purpose.

> At a task and finish group, the executive arguing in a principled manner for the delivery of high standards of provision to the organisation's current clients.

These motivations are tempered by considerations of the political environment and need for financial prudence.

> The chief executive reported to the board that the housing minister believed that "there is a moral obligation for us to ensure that everyone has access to a decent home", and that this would be reflected in the housing white paper.

6.4 Open Categories

The open codes with common characteristics have been grouped into concepts. These concepts have been further analysed and these put together as open categories by an iterative approach which sought to bring together common characteristics and properties. The categories and sub-

categories, which are summarised along with their links to their related categories in Table 3 'Categories', are listed below.

1. Political, regulatory, and ethical environments.
   - (i) The regulatory and political environments.
   - (ii) Values and culture of the nonprofit sector.
   - (iii) Social purpose of the organisation.
   - (iv) Identification with the client not the 'owner' or regulator.
   - (v) Nonprofit sector collective bodies.

2 The individual director.
   - (i) Motivations of the individual to become a board member.
   - (ii) Motivations for the board to recruit an individual non-executive as a member.
   - (iii) Personal credibility and integrity.
   - (iv) Prestige, ritual, formality and respect.
   - (v) Socialisation.

3 Nonprofit board structures.
   - (i) The formally appointed Board.
   - (ii) The senior management team (SMT).

4 Actions of the board.
   - (i) Social groups and the conduct of business.
   - (ii) Challenge.
   - (iii) Assurance.

5 Power and influence.
   - (i) Power of the political and regularity environment.
   - (ii) Power of, and within, the board.
   - (iii) The SMT and the *de facto* dual board

These categories and sub-categories are now discussed, with examples from the data.

6.4.1 The Political, Regulatory and Ethical Environments.

This category is concerned with the neoliberally based political and regulatory environments through which the state seeks to transfer the concepts, ethos, and processes of the for-profit sector into the UK nonprofit sector. Accountability and legitimacy are important issues in this context. The neoliberal ideology is argued to be in contradiction with the values and ethos of the nonprofit sector.

This category comprises five sub-categories: (i) the regulatory and political environments; (ii) values and culture of the nonprofit sector; (iii) the social purpose of the nonprofit organisation; (iv) the identification of the board with the 'client' not the 'owner' or the regulator; and (v) nonprofit sector collective bodies. These are now discussed under sub-category headings.

(i) The Regulatory and Political Environments

The regulatory environment affects board's and director's views and actions, which are dependent upon the prevailing political context and historical sources of corporate governance.

> At a meeting to discuss the creation of MATs it was argued that Government sets its policies [on education in this instance] based on its ideological stance and the mandate which has been obtained through the democratic process.

The nonprofit boards, being studied in this research, are essentially commissioned directly or indirectly by government to deliver the latter's statutory duties and policies, and so are effectively accountable to the regulator and government agency.

The regulatory environment is substantially based on neoliberal concepts implemented ultimately through NPM. This feeds through to the accepted standards of good practice implemented in the nonprofit sector.

> The audit committee considered the value for money (VFM) statement, which is a regulatory requirement. The committee discussed the outturn of the current year's VFM ambitions, and made suggestions for future ambitions and their strategic priorities. It was agreed that, while there was prioritisation in the strategies and operations plans, these should be clearly stated in the VFM document to demonstrate compliance with regulatory requirements.

However, the professional groups in the regulated sectors (for example, teachers, medical staff, social housing professionals) generally have a different world view and a different tradition, with a more community and collective, 'left' view. There is therefore a tension between the direction of policy and the beliefs of those entrusted to implementing those policies.

The implementation of neoliberaI principles encourages people from outside the nonprofit sector to be non-executives on boards in the sector. This can be argued to be for two main purposes of: bringing in people with a for-profit sector outlook to promote nonprofit sector efficiency or value for money; and weakening the nonprofit ethos and values which oppose the general thrust of neoliberalism.

(ii) Values and Culture of the Nonprofit Sector.

The values / ethos of the nonprofit focus on social purpose, which is combined with an antipathy to the profit motive. Ethos is a significant issue for the people who choose or are chosen to become directors in the nonprofit sector. There is a clear sense of commitment to 'public sector' or charitable values and often an associated antipathy to the for-profit / capitalist system / private sector. The values are more than those codified by the Nolan Principles, and include the high expectations of the general public for the standards of behaviour expected of directors in the nonprofit sector.

> In an unstructured interview, an ex-chief executive observed that there must be a commitment to the receivers of the organisation's services, and to the organisation's social purpose. He stated, that there is a need for commitment to the values of the organisation, such as its community focus and the provision of range of services to help and support residents. He further identified a tension between 'social purpose' and 'profit', but accepted 'profit' to be necessary, but argued that it should be viewed as 'profit for a purpose'.

Individuals who are both executive directors in the for-profit sector and non-executives in the nonprofit sector can be assumed to act in accordance with the different ethical bases in these two environments. In for-profit organisations, the purpose is increasing shareholder wealth, while in the nonprofit it relates to the delivery of social purpose.

(iii) Social Purpose of the Organisation

Nonprofit organisations are defined and characterised by having a social purpose rather than existing to increase shareholder value. The organisational social purpose drives decision making and uses an ethical rationality to deliver that purpose. Resource considerations are enablers or constraints rather than being drivers in the delivery of that social purpose. Further, there is a sense of collaboration and of community existing between organisations in sub-sectors populated by organisations with the same social purpose; rather than one of commercial competition.

> In a board discussion on support services, which are non-core business, the board strongly supported the view that these services should continue to be provided as part of the organisation's 'wider social purpose'. But they should be provided on the basis that there is no cross subsidy from the other areas of the business.

Board members recognise their legal obligations and accountability to the relevant regulator and funding agency, but also feel a moral obligation to ensure that the organisation fulfils its social purpose to the people for whom they provide their services. The board thus seeks to create a broader sense of accountability than to the funder, although it may struggle to implement them (Tacon et al., 2017).

(iv) Identification with the 'Client' Not the 'Owner' or Regulator

Identification is a psychological orientation of the self to something (as a person or group) with a resulting feeling of close emotional association. It is a largely unconscious process whereby

individuals model their thoughts, feelings, and actions after those attributed to an object that has been incorporated as a mental image (Merriam-Webster.com). It is thus closely associated with group membership, and is an intrinsic part of the socialisation process. The individual board member identifies with the board, the organisation, its social purpose, and the sector orthodoxy. This identification means that boards generally do not act for, nor identify with, the regulator and the government world view. That is, board members are socialised into the public service, collectivist ethic as opposed to neoliberal individualism.

The creation of boards: in the style of the for-profit sector; recruitment of members of the for-profit elites into nonprofit governance; and the 'imposition' of the accepted ways of doing things (good corporate governance practice), can all be argued to be an attempt of the political orthodoxy to create an identification in the nonprofit sector with the neoliberal orthodoxy (that is, through emotional control).

There is however, a substantial degree of self-selection by aspirants to be nonprofit board members. People who already hold pro-civic and pro-democratic attitudes are more likely to join organisations in the first place and less likely to leave, and these attitudes are not enhanced by the length of their membership (Rainsford and Maloney, 2017; van Ingen and van der Meer, 2015). The socialisation process leads to identification with the world views of the nonprofit sector. This identification acts against the inferred neoliberal purpose of seeking to place for-profit outsiders onto nonprofit boards, thereby reinforcing opposition to that aim.

(v) Nonprofit Sector Collective Bodies

The nonprofit sector as defined in this thesis comprises various 'sub-sectors' such as the NHS, state education, social housing, and charities. These sub-sectors operate within their own quasi-markets created through NPM. Each sub-sector has its 'trade association' or associations founded and funded by organisations which operate in a specific sub-sector. Nonprofit

organisations act through their various sector-specific representative (trade) organisations to influence government directly by lobbying and indirectly through attempting to change public attitudes. The aim of these activities is principally to promote the social purposes of the sector.

> At a conference of practitioners and academics it was argued that there was an erosion of the four goals of social housing: security; affordability; need; and quality; and that "social housing is politically driven, with its opponents coming from very different world views [to us]".

6.4.2 The Individual Director

This thesis argues that it is reasonable to assume that nonprofit non-executive directors choose to act in these roles from a mixture of intrinsic motivations. While it is not possible to attribute specific motivations to individuals, the analysis suggests that since there is little or no material reward, the extrinsic motivation is weak. Further, these motivations will cause the individual to seek to join and remain on a board and for the board to appoint and retain the individual. Motivation also influences the ways in which directors operate and interact. The individual non-executive becomes socialised into the ethos and values of the organisation and sector. This socialisation brings with it an identification with the sector, organisation, and clientele; which then affects the ways in which they act.

This category is discussed under the five sub-categories: (i) motivations of the individual to become a board member; (ii) motivations for the board to recruit an individual non-executive as a member; (iii) personal credibility and integrity; (iv) prestige, ritual, formality and respect; and (v) socialisation.

(i) Motivations of the Individual to Become a Board Member

The analysis provides a view on the importance of intrinsic motivation for directors to operate in the sector. This motivation seems to dominate, but does not exclude other forms of

motivation. Motivations of non-executive directors include: moral duty, personal interest eg helping own children, self-satisfaction; self-esteem; career advancement; and the feeling of 'making a difference'. These motivations include the psychological dispositions of altruism, empathy and sense of duty.

> In a meeting of chairs and chief executives it was agreed that "the most important values related to social purposes of helping the disadvantaged", and that "this was common to the health, social services and housing sectors."

The desire to make a difference to the client can only be achieved through direct power, influence and being a provider of advice. If this cannot be realised, then the director may suffer frustration and disenchantment.

(ii) Motivations for the Board to Recruit an Individual Non-Executive

Board recruitment processes vary across the nonprofit sector, ranging from total board control of selection in charities and social housing, elections and external nominations in education, and sector wide standard processes in the NHS. However, in all these processes the board itself has the major role, and is only part of the organisation which recruits itself. In that sense it is self-perpetuating. It therefore defines its own plans and criteria for selection, which may be strongly influenced by the regulator along with professional and sector norms and standards.

Board recruitment and retention processes include the definition of a mix of skills required of the non-executives on the board, both now and in the future, as a part of succession planning. Individuals are recruited onto the board according to whether they: meet the skill criteria; demonstrate skills and knowledge, particularly being able to bring the 'out-of–sector' view; are able to demonstrate an affinity or empathy with the social purpose, values and ethos of the organisation; are able to convince the recruitment panel feel that their 'face fits' with the existing board; and are able to demonstrate personal credibility and integrity.

The nominations committee considered a report on board succession planning which included: the terms and end dates for each director to ensure that there was a regular turnover of non-executives; the composition of the board committees; and the board skills profile against need.

(iii) Personal Credibility and Integrity

Credibility and integrity are the bedrock upon which the board rests. Board members must feel able to trust each other in all their dealings. They must also be able to trust the executive and feel that they are acting in the best interests of the organisation and its clients. This trust can then strengthen the ability of the executive to creatively support the board without feeling threatened themselves. The board must also feel able to place their trust in their fellow members for similar reasons.

In an unstructured interview, a chief executive stated that the board expects the chief executive to have challenged board papers at SMT before they are brought to the board. Notwithstanding that, 'very draft' papers have been presented to the audit committee to obtain members comments as part of the drafting process. This enhances executive credibility by demonstrating engagement and openness.

(iv) Prestige, Ritual, Formality and Respect

Power from prestige is displayed through the protocols, formalities and rituals of the board meetings, and in particular, the respect required to be shown to the board and its members. There is also a general respect for people who are directors of nonprofit organisations, which may be demonstrated through ways in which members of an organisation act towards its directors.

Board meetings in the NHS are held in public (but are not public meetings) and held with significant levels of formality.

(v) Socialisation

Socialisation into the board as a social group, the organisation, and sector ways of doing things is an important aspect of group member membership. It is a way in which the individual comes to accept or strengthen their agreement with the 'charitable, public service' world view, ethos and values of the sector on the one hand, while also accepting the processes and structures of the board derived from the for-profit sector. Socialisation comes about through a number of processes, and is a prerequisite to becoming a member of the ingroup. The regulatory and wider value regime builds in cultural acceptance of good corporate governance practice (derived ultimately from the private sector).

6.4.3 Nonprofit Board Structures

The key formal and informal structures of the nonprofit board are now considered under the headings: (i) the formally appointed board; and (ii) the senior management team.

(i) The Formally Appointed Board

The structures of nonprofit board are determined in the public sector through statute and regulation, for example, in the NHS and state education. In other parts of the nonprofit sector boards determine their own structure, subject to regulatory frameworks and sector norms.

Despite these differences the formal structures of nonprofit boards generally comprise either totally, or at least a majority of non-executive members. In all cases the chair is a non-executive. The chief executive is either an *ex-officio* board member or just attends the board. The boards appoint board committees to discharge many of its duties, which are chaired by a non-executive director. In many cases 'task and finish groups' (that is, *ad hoc* working parties) are created for specific purposes comprising both non-executive and executive directors. These *ad hoc* groups are also generally chaired by a non-executive director. If executives are not formally appointed board directors, they will in any event be present as non-voting attendees.

The board is formally responsible and accountable to the regulator. The key roles of the board are formally to: define and maintain the social purpose of the organisation; provide the public face of the organisation; provide (at least symbolic) leadership; provide strategic direction; make key decisions; hold the executive to account (obtain assurance); and provide support to the executive. The formally appointed board governs, and the management manages as directed by the board.

(ii) The Senior Management Team (SMT)

The management of the organisation is intertwined with the board as described above. The chief executive always attends the board and may be *ex-officio* a director and other executive directors may be board members, but generally just attend the board.

The executive directors, however, operate as a team (SMT) under the control of the chief executive, who determines its structure and its actions. The key roles of the SMT are to: manage the organisation as directed by the board; and support the board in its roles.

6.4.4 Actions of the Board

The ways in which the board conducts its affairs within the formality of its structures is now considered. The key issues which define this are: (i) social groups and the conduct of business; (ii) challenge; and (iii) assurance. The decision-making actions of the board are discussed in the sections concerning power.

(i) Social Groups and the Conduct of Business

While the board conducts most of its business at formal board and board committee meetings, it comprises various formal and informal groupings. The groups are the board, board committees, and the SMT. The informal groups comprise ingroups and outgroups of both executive and non-executive directors. These informal groups are bound together by personal friendships and the like.

The SMT generally acts as a cohesive group at a board and committee meetings. Executives support the chief executive and their fellow executive directors, even though there may be tensions between its ingroup and outgroups. Executive directors generally speak only to summarise and support board papers for which they are the author or responsible official, or when called upon to do so; as opposed to non-executives who are expected to contribute widely. The chief executive, through the SMT, largely controls the: executive directors; flow of information to the board; and the decision structures.

(ii) Challenge

Challenge is one of the generally accepted core functions of the board, and arising naturally from the agency theoretical view of the board which acts in the interests of shareholders and holds the executive to account.

Non-executive board members challenge the formal papers presented to them by the executive (with the authority of the chief executive). The nature of the challenge to the executive ranges from agreement, through seeking clarification, to disputing recommendations (if any) made in those papers. The form of challenge for nonprofits is modified by the context and culture within which it operates. The participatory observations provided evidence that:

a) there may be a more 'charitable view' taken by non-executives which lessens the force and effectiveness of challenge;
b) the common agreement of social purpose and individual sense of moral duty between executives and non-executive provides a more supportive environment, and favours a stewardship theoretic approach;
c) the structure of the *de facto* dual board where the SMT act as a coherent and support group at board meetings effectively diminishes the force and effectiveness of board challenge by non-executives; and

d) executives, even if they are formal board members, do not always act as full members, that is they do not challenge their executive colleagues.

The concept of challenge is developed in this thesis to that of an interactive 'challenge and response'. The interactive challenge process may be used: positively to strengthen or validate any arguments; negatively by the executive to defend themselves or their proposals; or simply to resist any comments. Executive resistance to challenge can be argued to be: 'valid', where it forces the non-executives to define their challenge more clearly; 'negative', where it is simply resisted or ignored; or 'passive', that is simply acquiescing to non-executive challenge. 'Challenge-back' by the chief executive and executive is an important component of challenge, but is not often used because executive directors are not full board members, and / or do not wish to be seen as actively or passively resistant to the will of the board. Moreover; the identification of the non-executive directors with social purpose which is being delivered through the executive; and the presentation of 'a united front' against the regulator, diminishes the force of board challenge.

The chair may be challenged by non-executive directors. However, the chair is accepted generally as the dominant person, so the instinct of the board may be to support the chair rather than be too critical. This position of dominant person can also mute challenge of ideas put forward or supported by the chair.

The recommendations made in board papers are generally agreed after discussion. However, this thesis argues that: the possibility of board challenge; and the prospect of rejection of an executive produced board paper, provides a mechanism which helps to ensure that papers contain coherent arguments, so that the recommendations may be accepted by the board.

(iii) Assurance

The board must be assured that the organisation is acting appropriately in pursuit of its goals. It obtains these assurances on the appropriateness of management actions, internal controls and risk management from a variety of sources, such as: internal and external auditors; regulators; other independent sources; and most importantly, the management (chief executive and SMT). This assurance is one of the products of challenge.

6.4.5 Power and Influence

The concept of power is used in this section to describe and analyse relationships between the: state, organisation; board; SMT; and wider organisation. This section considers: (i) the power aspects of the political and regulatory environment and the effect on nonprofit corporate governance; (ii) the power of the board and power within the board; and (iii) the power aspects of the SMT which creates a *de facto* dual board.

(i) Power Aspects of the Political and Regularity Environment

Power in the political and regularity environment exists through the: acceptance of social norms and ways of thinking; accepted forms of legitimacy; political control of state apparatus; bureaucratic power of the delivery of political policy; legal authority; and governmental regulators and funding agencies (Flyvbjerg, 1998). The latter formally determine, through regulation and funding, the activities and governance structures and practices of the nonprofit organisations.

There is the problem of what might be termed *political* trust, and particularly the perception among politicians that the civil service is unwilling to enact policies it may disagree with. Lack of political trust can be corrosive, particularly if it results in toxic relationships between ministers and the officials responsible for enacting their policies (Wright, 2017). This resistance is manifest throughout the whole system.

(ii) Power of, and Within, the Board

The realities of boardroom power and influence affect critically the board, senior management and beyond. The analysis of board processes through the lens of power and politics provides the means to examine the micro-processes through studies of, for example, trusting, influencing and problem solving. Understanding power and influence requires the development of a dynamic and holistic view of the conduct and behaviour of a board. It is these interactions and behavioural processes among and between actors in and around the boardroom rather than on the performance of boards which is the focus of a behavioural theory of boards (Van Ees et al., 2009).

The relationships between the chief executive, executives, non-executives and chair represent important elements of this view of board dynamics. The chair occupies the most powerful formal role in the board, and their style, energy and personality represent important factors in the dynamic of the board. Challenge by the board, and the 'threat of board challenge' are means by which the board exercises its authority and power. Regardless of whether the chief executive is an *ex-officio* member of the board or simply attends, that person plays a pivotal and powerful role in board deliberations.

(iii) The SMT and the *de facto* Dual Board

The board expects the executive to be professional and well organised. The ways in which the executive organise themselves (that is, as organised by the chief executive) is very much determined by sector norms. The SMT as a group exerts power through the control of: the organisation; and information provided to the board; interpretation of information based on detailed knowledge and their world view. The SMT also influences the board by demonstrating its credibility and integrity and through the position of chief executive. The chief executive acts

in the dual (and potentially conflicting) roles of board member and leader of the SMT, and also controls the SMT, and through its members, the organisation.

6.5 Relationships between Categories and Sub-Categories

The relationships between sub-categories are now reviewed in more detail, with examples from the data to yield suggested propositions. The relationships describe the effects which the:

(i) political, regulatory and ethical environments have on - the individual director, the structures of nonprofit boards, the actions of the nonprofit board, and on the concepts of power and influence;

(ii) individual director has on - the political regulatory and ethical environments, nonprofit board structures, actions of the board, and power and influence;

(iii) nonprofit board structures have on - the individual director; actions of the board, and power and influence;

(iv) actions of the board have on the – political, regulatory and ethical environments, individual director, and the nonprofit board structures, and power and influence; and

(v) effects of power and influence have on - the political, regulatory and ethical environments, the individual director, the nonprofit board structures, and the actions of the board.

6.5.1 The Effects of the Political, Regulatory and Ethical Environments

This section discusses the effects the political and ethical environments have on the (i) individual director, (ii) structures of nonprofit boards, (iii) actions of nonprofit boards, and (iv) concepts of power and influence

(i) The Individual Director

The political and regulatory environment is of great importance in the nonprofit sector, since it creates the governance structures within which the individual operates as a director. The ethical environment influences the individual to become a board member through the creation of board structures, based on professionalisation. This provides a forum for the individual to express their motivations; and defines affects the culture within which non-executives operate.

Professionalisation of the board builds in a cultural acceptance of 'good corporate governance' practices and provides the opportunity for people with professional skills to be engaged in the sector for their own intrinsic motivations. The concept of the professional board, derived from the for-profit sector, can however stand culturally in opposition to the traditional view of as a director being a representative on a democratically constructed board.

The motivations of individual directors were not found to be related to the state's intention that boards and board members are there to deliver the state's responsibilities efficiently. Thus, the motivation of the individual to become a board member may be odds with the requirements of the neoliberal environment. Further, the regulatory requirements and good practice guides encourage a board to appoint people on a skills basis, but the selection processes for board members also take into account the appointee's: empathy with the social aims of the organisation; 'fit' with the remainder of the board; personal credibility and integrity; and embracing the public service ethos.

(ii) The Structures of Nonprofit Boards

The environments directly affect the formal and informal structures of the nonprofit board; with formal structures determined by: legislation; regulation; codes of practice; and sector norms. The informal structures are influenced by ethical standards, sector norms, and public expectations.

The formal structures of the board are provided by the statutory and regulatory frameworks in areas of the public and quasi-public sectors. The charity sub-sector has discretion but rests on charity law. Thus, these frameworks are based on: specific legislation relating to areas; charity law; the specific sector codes built on this foundation; and the core duties of directors under the Companies Act 2006. Under this legislation, the company, as a legal entity, is subject to statutory controls, and its directors are responsible for ensuring that the company complies with those statutory controls. The Companies Act 2006 also sets out the statutory duties of directors: to act within the powers set out in the memorandum; promote the success of the company; exercise independent judgement; exercise reasonable care, skill and diligence; avoid conflicts of interest; not accept benefits from third parties; and to declare interests in any proposed transactions or arrangements.

Statute is reinforced or developed through specific guidance relevant to different parts of the nonprofit sector. For instance the directors (trustees) of exempt charities must comply with CC23 of the Charity Commission regulations which require them to: act reasonably and prudently in all matters; always act in the best interests of the charity; apply the income and property of the charity only for the purposes set out in the governing document; protect all the property of the charity; invest the funds of the charity only in accordance with the powers of investment; and regularly review the effectiveness of the charity. In the nonprofit, social housing area for example, organisations generally adopt the NHF Code of Conduct and Code of Governance. The NHF Code of Conduct describes the generic responsibilities of boards regarding probity, loyalty and conflicts of interest, remuneration of directors, personal benefit, prevention of bribery and corruption, and respect (boardroom behaviours). The NHF Code of Governance describes the purposes of the board as: determining strategy directing, control, scrutinising and evaluating the organisation's affairs; and delegating operational management to the organisation's staff. It provides that all members of the board share the same legal status

and have equal responsibility for decision making. The regulator (HCA) seeks to protect the state's investment in social housing through regulatory assessment. The HCA does this by seeking assurance that boards understand: the links between their non-social and social housing activities; and potential risks posed by non-social housing activities to the social housing assets.

The political, regulatory and ethical environment thus provides a strong framework for the standards of board behaviour and probity. While the behaviours and processes are based on sector values, culture and the aims of achieving social purpose, they must fit into this regulatory framework. There can be a tension between these because the boards are populated by members who identify with the sector rather than the regulator, but compliance with regulation is of paramount importance to them.

Many executive directors in the nonprofit sector are not directors under the legal definitions, but attend the board as members of the SMT. These directors, as well as being in operational control of the organisation, are imbued with the values, moral and social purposes of the sector within which they work. They are totally socialised into identifying with the sector, but must conform to regularity requirements for personal career objectives. Since they are not legally directors they have not legally responsibility for the organisation.

(iii) Actions of Nonprofit Boards

Regulatory authorities require boards to demonstrate their competence and conformity with the principles laid out in various guidance documents. Thus, board business such as the determining strategy, directing, controlling, scrutinising and evaluating the organisation's affairs, is conducted formally on the basis of papers prepared by the executive. There is discussion of these papers, based on challenge, as the expected core board function, and by seeking assurance from a range of internal and external sources.

The usual sector structure of formal board and the SMT means that group interactions dominate, with great power resting with the chief executive and SMT.

The ways in which the executive directors (whether or not they are formal members of the board) acted as a group was discussed in a group session. Comments of board and SMT members are reproduced below.

> An NHS NED (and governance consultant in the social housing sector) observed that in her experience the executive directors always supported the chief executive and never challenged each other at board meetings; stating that "everything was always 'sown up' before the meeting".
>
> A former NHS NED (and chair of another nonprofit organisation) said that his experience was similar, but that the executive directors, after much effort by the chair of that NHS trust, acted more like 'full directors', but never acted fully in the role. Another non-executive director, and ex NHS trust chair, concurred with the original point about executive members on the board not acting as 'full directors'. She stated that her view that this may be because NHS boards are held in public.

The analysis of the data demonstrated that common values and ethos dominated in the actual conduct of board business through the focus on social purpose. This culture means that challenge is heavily moderated by the context of sector 'charitability', 'public service' culture, and the observation that 'challenge is challenging'. Further, challenge is moderated by the context that the non-executives who challenge, share the social purpose with the executive who are being challenged.

The external challenge of a regulatory inspection brings the formal board and SMT together in a united front, identifying with the organisation. The state structure arising from the neoliberal framework requires the existence of a regulatory body, which operates the regulatory regime. The nonprofit organisations operating within this regime see themselves as subject to the power

of the regulator, which is a major outside constraint on their freedom of action and as a key external threat. They thus pay great attention to regulatory compliance. This unites the formal board and the SMT in defining their actions which demonstrate compliance. That is, the organisation complies formally to the extent of being able to withstand an inspection by the regulator. The board thus seeks to carry out its business of delivering social purpose despite the regularity constraints placed upon it. This provides a context for the concept of non-executive directors and the SMT being 'critical friends'.

(iv) Power and Influence

The power of the state and regulator dominates the nonprofit sector through: legal frameworks; funding; and regularity regimes. However, the formal power structure does not necessarily correspond to the actual power structures within the organisation and the board. In particular, the legal frameworks focus on the powers and responsibilities of the directors of the organisation. The chief executive and SMT who may not sit within this framework are assumed to be controlled by the board, but the analysis of the data produces questions about the power relationships between the board, and the SMT as a dominant coalition (Cyert and March, 1963; Desai, 2016; Gavetti et al., 2012; March, 1962; Pearce, 1995).

The values of the nonprofit sector are generally opposed to those on which the political and regularity environment is based. This is reflected in many cases by the collectivist, anti-competitive ethos within the sector, and an over-riding sense of community of purpose within the various nonprofit sub-sectors. Thus, the formal structure of quasi-markets is negated since members of those 'markets' often do not wish to compete. This world view is generally shared between the non-executive and executive directors. This over-riding sense of social purpose provides the basis for the sector to seek to affect this environment through political action and influencing the regulator, and thereby counteract the prevailing state view. This process is

supported by the board through a process of identification with the sector and organisation against the political and regulatory stakeholders (that is, the state and regulator).

6.5.2 The Effects of the Individual Director

Individual directors are not passive agents carrying out the duties ascribed to them. Their motivations and qualities, the motivations of the board to recruit them, and their socialisation affect what they do and the ways in which they do it. These elements are considered as the effects that the individual director has on the sub-categories of the (i) political, regulatory and ethical environments; (ii) nonprofit board structures; (iii) actions of the board; and (iv) concepts of power and influence.

(i) Political, Regulatory and Ethical Environment

Individual directors affect the political, regularity and ethical environments by their individual and collective responses and interactions. As individuals they are generally motivated to become non-executive directors through moral duty or to achieve social purpose. This means boards, as groups of similarly motivated people, along with 'trade' bodies promote the 'anti-neoliberal' view through 'opposing while conforming'. The ethical environment is generally reinforced through identification and socialisation.

The analysis indicates that the intrinsic motivations of an individual to become a board member (non-executive director) exist before the person enters the sector (although the analysis of the data did not seek to provide a specific identification of these motivations). The creation of the idea of the professional board promotes the idea that professionals in the nonprofit and for-profit sectors can use their skills for a social purpose. The concept also plays down the idea of the representative board, thereby supporting the culture change. It is possible to argue that the motivation of 'the state' is to change the nonprofit sector to conform to the neoliberal worldview rather than a collectivist ethos. This appears to reflect the tension between

'efficiency' and 'social purpose' motivations. The 'efficiency' aspect is supported by regulatory authority and the 'social purpose' through socialisation and identification processes.

The individual director has multiple and potentially conflicting identities. One of the identities is that of a nonprofit director, which means that the person acts according to a set of values and norms associated with the nonprofit sector. Other identities may, for example, derive from the for-profit sector, such as that of the professional, manager, or executive director; or as an executive within a different nonprofit organisation. The nonprofit non-executive director identity is developed or reinforced through socialisation processes leading to identification with the social purpose of the organisation and of the position of the 'client'.

(ii) Board Structures

The individual director affects the formal and informal board structures through their motivations and experiences. While formal structures are defined in law, regulation, and sector guidance based on these; the board itself has the freedom to define its own specific structures within those frameworks. These formal board structures comprise committees, sub-committees, *ad hoc* working groups and other specific arrangements. These structures are influenced by the: background, experience and views of board members and the executive; and the values and culture of the sector. The SMT is heavily influenced by sector cultures and norms since this is the environment into which executive directors have been socialised, which in turn was often a necessary condition for career advancement. Similarly, the board recruits its own members, according to the motivations of existing members and the skills and attributes required by the board. Those requirements often include the desire to recruit professionals with the skills and experience to effectively challenge or direct the executive SMT members.

(iii) Actions of the Board

The board, although a social group, comprises individuals. The individual director, through interaction with fellow non-executives and the executive affects the actions of the board. These interactions are grounded in the: professional and social skills, experience, and motivations of the individual; and the group dynamic of the board itself.

The motivation, a sense of moral duty for example, to become a board member in the first instance can affect how the member interacts with social groups on the board. This thereby affects such things as decision making and challenge. The board may often recruit a new member on the bases of credibility, skills and motivation, thus strengthening the group motivation. The core board functions of challenge, seeking assurance, and decision making are strongly influenced by the individual and group motivations.

(iv) Power and Influence

The individual director affects the structure and action of power and influence: through personal skills and connections; motivations; as part of the board as a group; into the organisation; and externally out to sector and the political and regulatory environments.

Individual directors are recruited, in part, because of their personal skills, experience and wider connections. The data indicated that the board, through its recruitment practices, seeks to demonstrate compliance to the regulator in term of having a skilled and professional membership.

As part of a recruitment process, an individual director was found to be motivated to 'make a difference' to the clients of the relevant service. There were however no cases which supported the view that the director was motivated to be a nonprofit board member to influence government or a regulator, or to control the executive in an organisation.

The board, as a group, seeks to enhance its power and authority by recruiting people with relevant skills and experience both to help it deliver its social purpose and to challenge the

SMT. The power of the board is evidenced through the respect and formality shown to it by the SMT. However, the SMT itself is a powerful group which controls the organisation and works closely with the board to help it shape strategy. The existence and power of the SMT is an accepted norm within the nonprofit sector.

The individual director may also have the skills and connections to influence the: sector; the regulator; or the political establishment directly.

6.5.3 The Effects of NonProfit Board Structures

This section discusses the effects of nonprofit board structures on the: (i) individual director; (ii) actions of the board, and (iii) concepts of power and influence.

(i) Individual Director

The formal and informal structures of the board provide the theatre and framework for the actors to inhabit (Goffman, 1959). The formal board structures can provide a theatre of formality and respect in which people can act out their motivations ranging from self-esteem to altruism, and act as the focal point of the acts for the informal processes of socialisation to common values of the board and organisation.

(ii) Actions of the Board

The board operates within its formal structures, and its actions and itsaccountability must be transparently demonstrable through these formal mechanisms. Business is conducted at board meetings, board committees or *ad hoc* working groups with terms of reference determined by the board.

The SMT, as a structure, heavily influences the conduct of business through: involvement in agenda setting; information provision; a source of assurance; and providing advice and argument at the board. Moreover, SMT members are not simply passive recipients of board challenge. They may respond in a wide range of ways which include: passive acceptance and

agreement of the points made by the board; engaging in robust, but positive debate with the board and challenging back; resisting challenges in a range of different ways.

(iii) Power and Influence

The board is responsible and accountable for the organisation; and has legitimacy through its legal structures to achieve this. Governance structures dictate the conduct of business and shape the theatre for the existence of social groups on and around the board. In particular, the structures provide the context within which board functions of challenge, seeking assurance and decision making operate. The governance structures thus form the basis for creating and using power and influence: (a) by interacting with the CEO and the SMT and within the organisation, through the SMT; externally, (b) by direct interaction with stakeholders, including regulators; and (c) collectively through trade organisations.

(a) Internal Interactions with the CEO, SMT, and The Organisation

The board provides the strategic direction for the organisation and directs the SMT to deliver its decisions in the organisation. It is also advised, assisted, and influenced by the SMT when making decisions. The SMT thus represents a major non-statutory but formal component of the board with its power position as chief advisor and influencer to the board. The board retains its ultimate power of decision along with, the sanction of power to dismiss the chief executive.

The SMT operates with a similar degree of formality and ritual as the board, although in private, with no non-executives present at its meetings. It may however request assistance from the board in the form of non-executive skills, which the SMT does not possess. In any case the SMT ensures its underlying power by promoting and supporting the socialisation of all board members into the world views of the sector.

(b) Direct Interactions With Stakeholders

While the board has the formal power to interact with the organisation's stakeholders; these interactions are however generally carried out by and through the SMT and the chief executive.

The chief executive is then seen by stakeholders as the representative of the organisation, while the chair of the board is the 'public face' of the board. These external perceptions vary according to the dynamic of the individual board.

(c) Collective Power Through Trade Organisations

Formally appointed boards can act individually, but mainly do so collectively through sector organisations, to resist or change the political and regulatory environment. While the SMT does not have the legal authority of the board, it is the main driver of these collectives for the same reasons that it holds its power on individual boards. This process is rooted in the world view and social purpose of that collective.

6.5.4 The Effects of the Actions of the Board

This section discusses the effects of the actions of the board have on the: (i) political, regularity and ethical environments; (ii) individual director; (iii) nonprofit board structures; and (iv) concepts of power and influence.

(i) Political and Ethical Environment

Individual nonprofit organisations are generally too small to affect the political and ethical environments directly. However, they can have an effect on government and regulatory bodies through combining their views through their 'trade organisations' (for example, the NHF for social housing providers and NHS Confederation). The ethical environment can also be affected by scandals (for example, Kids Company), which can lead to changes in both the regulatory regime and public expectations of nonprofit governance.

The analysis of the data shows that the board believes that one of its key functions is the definition, maintenance and direction of the delivery of the organisation's social purpose. This focus on social purpose places the client as the main concern, with the funder and regulator as constraints. Board challenge is moderated in the context of identification with the client, but with over-riding concern for providing evidence to the regulator of effective challenge; as a

key component of governance expected by the norms of corporate governance. For example, evidence of effective challenge is taken as an indication of effective governance by the HCA; and its absence will lead to a downgrading of the organisation in respect of governance. However, the research did not seek to determine any link between evidence of challenge and its real effectiveness.

While the board seeks assurance from sources such as internal and external audit, the weight of assurance comes from the executive and a high degree of trust in the executive is necessary. The sources and extent to which these assurances are received and acted upon are themselves indicators of effective governance as judged by the regulatory authority.

Positive assurances serve to build trust and strengthen identification between the board, the SMT and the organisation, and give the regulatory authorities confidence in the governance arrangements. The regulator is particularly concerned when issues relate to their regulated sector as a whole. These may be evident through the regulatory mechanisms or issues raised by sector bodies.

(ii) Individual Director

Board actions can affect the individual director by providing a sense of achievement or worth through participating in board actions which satisfying a personal sense of moral duty, an expression of personal altruism, or other personal ambitions. This sense of satisfaction or achievement is based on:

- personal objectives such as: altruism, empathy for a charitable cause, the opportunity for humanitarian leadership, responsible citizenship, and militant volunteering to support a cause which is important to them;
- being a member of a social group, recruited and retained because of skill, experience, credibility and integrity; and

- self-interests such as personal well-being, personal betterment, personal satisfaction arising from enhancing the overall professionalism of the board, the prestige of association with an elite organisation, relationship with prominent people, and the importance of an organisation within a community.

(iii) Board Structures

While the actions of the board are dependent upon the structures in which they are enacted, they also affect those structures. The board members determine the governance arrangements such as committee structures, in line with accepted practice, legal and regulatory frameworks, and their interpretations of organisation's specific needs. These locally determined structures provide the arena for challenge, assurance, and decision making. The SMT also acts to create and adapt its own membership and structures to meet the requirements of the board and of the organisation itself. In particular, it addresses the issues of the 'threat' and actual challenge through having an appropriately skilled membership and arrangement for obtaining other relevant advice and support. The SMT also works very closely with the sources of external assurance required by the board: for example, working with internal and external audit to ensure that the auditors present the management in the most favourable light possible.

(iv) Power and Influence

Finally, the actions of the board have a significant effect on the relationships of power and influence both externally and internally to the board. Power within the board depends on inter-personal and inter-group dynamics which in turn depend on the formality and the interactions of individuals and groups. This applies also to the SMT and its relationship with the board. The power dynamic rests on the board's ability to make decisions, challenge and to seek assurances. The actions must rest ultimately on the requirement to demonstrate effective governance to the regulator.

6.5.5 The Effects of Power and Influence

This section considers the effects of power and influence on the: (i) political, regulatory and ethical environments; (ii) individual director; (iii) nonprofit board structures; and (iv) actions of the board.

(i) Political, Regulatory and Ethical Environments

Power and influence are important aspects of nonprofit governance. Financial and legislative power is seen by the nonprofit sector as a means by which the state imposes a neoliberal outlook and thus seeks change in the culture and values of the nonprofit sector. This power is used to seek to influence or control the ways in which the nonprofit sector delivers certain of the state's legal responsibilities to its citizens. Boards collectively oppose this power by attempting to influence the political and regularity environments through lobbying and campaigning.

The power of a board ultimately derives from its legal position; but that power is used to further its social purpose rather than further the aims of the state whose responsibilities it is delivering.

Although a legal entity a board comprises contending formal and informal groups, the SMT represents a significant group associated with the board (although of no legal standing). It is an active agent in the propagation of sector values and culture to the board and organisation with a committed purpose of furthering the organisation's social purpose as well as its own members' executive interests.

(ii) Individual Director

The effects of the concepts of power and influence are felt by the individual director in terms of (a) the director as the subject of the power of others; and (b) that exercised by the director over others.

(a) Power and Influence of 'Others' over the Director

The director is subject to the power of: the regulator; the board; and high expectations of selfless behaviour. The political and regularity environment creates the governance structures and expected attitudes required of nonprofit board directors. Compliance with these are then checked by the regularity regime.

Directors are recruited by the board, which uses its power to structure itself through the recruitment of new board members who meet a skills requirement but also 'fit' with the outlook of the current board. After members are recruited, a board exercises: 'positive' social control over its members through mentoring and support into normatively appropriate ways to participate in board activities; and 'negative' social control through social sanctions against group members who violate the collective interest. The power and influence of the board and of the sector are thus used to perpetuate the world view and shared rationality of the nonprofit sector. Directors are thus required to conform to board and sector norms, protocols rules, by doing 'what is expected of them' according to the social rules of accepted behaviour in the nonprofit sector.

(b) Power and Influence Exercised by the Director

Board membership is attractive to individuals since it offers the prospect of the power to be able to use skills and experience to 'do something worthwhile'. This power is expressed through the board and the influence which the director has on the workings of the board. Membership of a board ingroup is important in influencing the board and thus satisfying the ambition to be of value or to contribute to achieving social purpose, or satisifying a sense of moral duty.

(iii) Board Structures

The power and influence associated with the political and regularity environments impacts directly on boards, since they are required to act within regulation and are publicly judged on their efficiency and effectiveness as assessed by the regulator. Further, the regularity regime does not only seek to judge boards solely by what their organisation delivers; but also direct the ways in which they act through both governance structure and the ways in which the board acts within those structures. Good governance is regarded as central to the board's ability to ensure that the nonprofit organisation delivers what is required of it by the funder.

One way that political and regularity power is delivered is through inspection and the threat of inspection. Sector organisations are sensitive to adverse comment or regulatory 'downgrading'. The SMT is particularly sensitive to this since significant degrees of organisational non-compliance may adversely affect their careers. The SMT itself acts the main conduit of regularity power to the board since the SMT has a high level of power in the board. Thus, the SMT acts to reinforce political and regulatory power by strongly promoting compliance by the board. The control of the organisation by the SMT also ensures that the issue of regulatory compliance is transmitted to all parts of the organisation as part of its culture.

6.5.6 Suggested Propositions

The reflexive nature of the relationships shown in the preceding analysis, produces the followed suggested propositions.

(i) The political, regulatory, and ethical environments act directly and indirectly on boards and on the executive. The expectations arising from these environments are at once both legal and normative. There is a clear tension between the world views and aims of the regulatory authorities and those of the regulated organisations. Individual nonprofit sub-sectors, acting collectively through their 'trade organisations' seek to change or affect these political and regulatory frameworks.

(ii) The nonprofit board structures are determined by regulation and by the views of the non-executive directors, supported by the SMT.

(iii) Governance is enacted through these formal and power structures, and the structures themselves provide the theatre within which directors act and effect the governance processes. A non-executive director (and chief executive of a different organisation) observed that "it is all about power".

(iv) Governance is ultimately enacted by the individual director, who does not merely act as a passive transmitter of the requirements of the funder and the regulator; but is required to exercise judgement. This judgement is based on not just technical competence, skill, and experience; but also has an ethical basis, which is the ultimate motivation for being a non-executive director.

6.6 Axial Coding Process

As described in Section 5.3.2 'Coding' above, axial coding refers to the process of developing main categories and their sub-categories, which Strauss (1987) argues build "a dense texture of relationships around an 'axis' of a category" (p. 64). The prime purpose of axial coding is to re-examine the categories identified in open coding to determine the linkages between them (Strauss and Corbin, 1990). In axial coding, data are put together using a system of coding which seeks to: identify causal relationships between categories; make explicit connections between categories and sub-categories (Pandit, 1996); and to develop a conceptual model which explains the relationships between categories and thereby understand the phenomenon to which they relate.

The axial coding process thus re-examines the data in detail, de-contextualising it from the specific data collection and considering it as part of a body of evidence seeking relationships which provide a better understanding of the properties. It further re-explores the relationship

of each phenomenon to the data, by using the paradigm model to explore the contexts, intervening conditions, actions and interactions, and consequences.

Models of nonprofit governance are then provided in the next section, which are linked to axial codes, and lead to the construction of a core category.

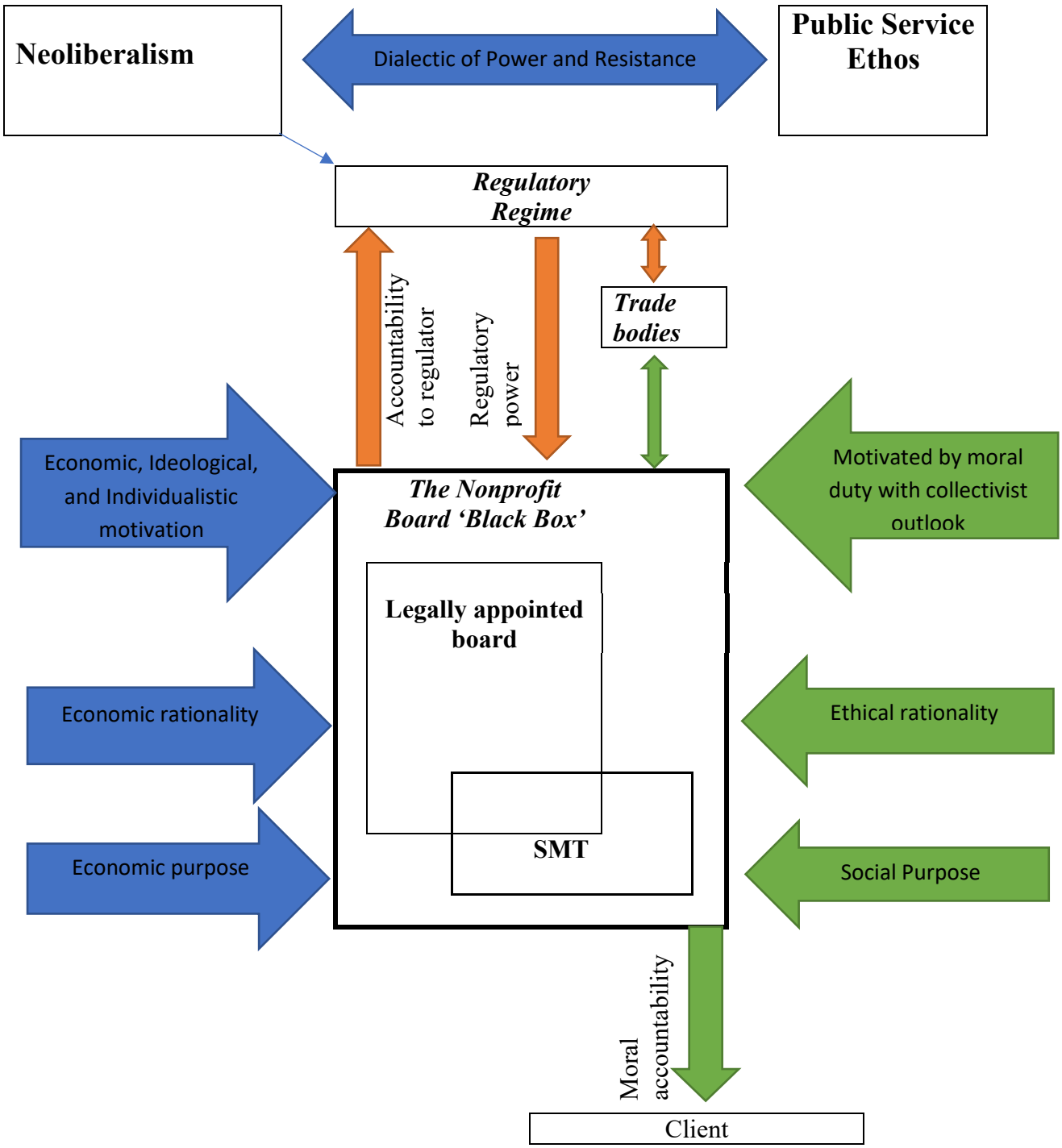
6.7 Models of Nonprofit Corporate Governance

This section proposes and discusses two models which describe nonprofit corporate governance. The first model, shown in Figure 1 below, describes the ideological and motivational environment of nonprofit governance. The second model, shown in Figure 2 below, provides a flow model which illustrates the interactions between the components of governance.

6.7.1 Ideological and Motivational Environment of Nonprofit Governance

The model, shown in Figure 1 below sets outs the dynamics in terms of power and tensions in terms of: the dialectic of power and resistance between neoliberalism and the public service ethos; differing motivations, rationalities, purposes; and accountabilities. These issues are then discussed in the flow model in Figure 2.

Figure 1: Model of the Ideological and Motivational Environment of Nonprofit Governance



The model describes the structures, forces and tensions which 'mark out' the struggle between competing neoliberal and public service ideologies, in nonprofit corporate governance. The concept of ideology, the dialectic of the power and resistance, and struggle between competing

ideologies are now discussed. This is followed by a description of the components of the 'nonprofit black box'. The relationship of the board to sector 'trade bodies' and the regulator is also noted as an important component in the power, resistance, and feedback process.

(i) Ideology

While the term ideology has many meanings, Eagleton (1991) proposes that these include: the social determination of thought; ideas and beliefs (whether true or false) which symbolise the conditions and life experiences of a specific, socially significant group or class; and the promotion and legitimisation of the interests of such social groups in the face of opposing interests.

The legitimisation of the power of a dominant social group or class is achieved by: promoting 'naturalising and universalising' its beliefs thereby making them appear self-evident and inevitable; denigrating opposing ideas; and excluding rival forms of thought, perhaps by some unspoken but systematic logic (Eagleton, 1991; van Dijk , 1998). While not every ideology is associated with a dominant group, the "force of the term ideology lies in its capacity to discriminate between those power struggles which are somehow central to a whole form of social life and those which are not" (Eagleton, 1991, p.8).

(ii) The Dialectic of Power and Resistance

Van Dijk (1991) argues that both power and domination, as relations between groups, need to be based on ideologies so that such relations can be reproduced in the everyday life and practices of group members. That is, ideologies are developed socially to make sure that group members think, believe and act in such a way that their actions are in the interests of themselves and of the group as a whole.

Van Dijk (1991) also argues that domination usually leads to resistance and struggle, but that resistance needs a socio-cognitive basis in terms of group-relevant values, principles, ideologies and its more specific knowledge and attitudes.

The model in Figure 1 portrays the nonprofit environment in terms of the interplay of the neoliberal ideology and structures implemented through NPM, and that of the public service ethos which resists it.

This is now considered in terms of the: concept of 'background ideas'; its application to concept of power and resistance; and the factors which describe the resilience of neoliberalism.

(a) Background Ideas

Both the public service ethos and neoliberalism are argued to be ideologies in terms described above and are thus 'background ideas' which consist of unquestioned assumptions, philosophical approaches which serve to guide action, and unconscious frames or lenses through which people see the world.

The public service ethos appears to have a strong tradition in the UK. However, the background ideas of neoliberalism had all but disappeared from public consciousness and debate before the 2008 financial crisis (Amable, 2011; Harvey, 2005; Hay, 2004; Mirowski and Plehwe, 2009; Peck, 2010; Schmidt and Thatcher, 2013; Steger and Roy, 2010).

They were however challenged after that event (Schmidt, 2016). McGimpsey (2017) argues that after the financial crisis of 2008, austerity initially threatened the "self-evident quality of the market-state … [and] the largely quasi-marketised public service apparatus" (p. 70). An important resolution to the contradictions exposed by austerity included a greater role for civil society in providing public services as the state infrastructure was reduced or withdrawn (Harris, 2010a; Sage, 2012; Youdell and McGimpsey, 2015).

(b) Power and Resistance

The model describes the dialectical interactions of the power of the state and regulators acting on the nonprofit sector, and the countervailing power of, and resistance by, the nonprofit sector. Barbalet (1985) argues that "[p]ower relations imply acceptance on the part of those subject to them. They also imply resistance. This has been regarded as paradoxical, if not contradictory. But acceptance by social actors of the legitimacy of power over them does not imply that they cannot attempt to moderate its effects. That is, an acceptance of power does not preclude resistance" (p. 531).

McKay and Warren (2018) argue that power is 'countervailing' when it exists outside the control of decision-makers, and yet must be anticipated when they make decisions and develop policies. Fung and Wright (2003, p. 260) present the concept of countervailing power as "a variety of mechanisms that reduce, and perhaps even neutralise, the power-advantages of ordinarily powerful actors", which in adversarial arenas can appear as "interest groups, public interest litigators, social movements, or perhaps crosscutting networks of professionals and officials. They further argue that the forms and consequences of countervailing power depend upon: the extent to which decision making is primarily adversarial, where interest groups seek to maximize their interests; or collaborative, where the central effort is to solve problems rather than to win victories; and whether the governance process is primarily top-down or participatory.

The model is predicated on the assumption that the nonprofit sector has countervailing power, but accepts the law, regulation and required norms of good practice. However, its members do not necessarily agree with the philosophical or moral bases under which they operate and, may resist the regulatory authority.

(c) Resilience of Neoliberalism

Neoliberalism is able, as a concept and as a set of practices, to resist challenges because it is dynamic, and changes in response to events. This dynamism creates resilience, through processes which include: 'bricolage' - grafting new elements onto older ideas (Campbell, 2004; Carstensen, 2012; Swidler, 1986); 'conversion' - old ideas being used in new ways (Streeck and Thelen, 2005); and diffusion - the spread of neoliberal ideas, and translation - adaptation of such ideas to new contexts (Campbell 2004).

Ultimately, the resilience of neoliberalism rests on its nature as a normative philosophy. Schmidt and Thatcher (2013) argue that since this is the case, crises and shortcomings can be argued to be the result of failures of compliance rather than that the theory was wrong.

(iii) The Struggle Between Competing Ideologies

The model in Figure 1 assumes that the nonprofit sector is at odds with neoliberalism in respect of: (a) ideology; (b) motivations; (c) rationalities; (d) purposes; and (e) accountabilities.

(a) Ideology

Geuss (1981) suggests that, in a sense, ideologies are belief systems characteristic of certain social groups or classes, composed of both discursive and non-discursive elements. This approaches the notion of 'world view', in the sense of a relatively well-systematised set of categories which provide a 'frame' for the belief, perception and conduct of a body of individuals. The interplay between these frames is shown in divergent public expectations of the nonprofit sector: which can be argued to be 'inefficient but caring'. The neoliberal approach seeks to address the issue of efficiency, while the public service ethos addresses the issue of caring.

(b) Motivations

The model illustrates two aspects of motivation. The first is the opposition between: the neoliberal ideological motivations of seeking economic efficiency, and the primacy of individualism; and second, the nonprofit social purpose motivation, supported by the individual director's sense of moral duty, which is combined with a collectivistic view of providing services.

The model shows the importance of this intrinsic motivation of directors and their socialisation into the cultures and values of the nonprofit sector, regardless of any other identities they have. Socialisation processes strengthen a director's identification with nonprofit board social groups, and conformity to sector values. A key aspect of this is the resulting unity in resisting while conforming to the power of the regulator.

(c) Rationalities

Brown (2015) argues that neoliberalism "developed over three decades into a widely and disseminated governing rationality, neoliberalism transmogrifies every human domain and endeavour, along with humans themselves, according to the specific image of the economic" (pp. 9-10). Governance has been criticised as the political rationality of neoliberalism (Haus, 2018).

The model displays the tension between the economic rationality required by the regulator and the ethical rationality used by the nonprofit sector. The economic rationality, derived from the for-profit sector is intended to deliver efficiency and 'value for money'. Ethical rationality is focused on delivering social purpose.

(d) Purposes

The self-stated purpose of the regulatory regime is to ensure that the nonprofit sector delivers the state's responsibilities economically and effectively; while that of the nonprofit sector is to deliver social purpose. These purposes may be opposition, but the nonprofit provider aims to deliver its social purpose using state funding while complying with regulatory requirements, which are viewed as constraints rather than drivers for that delivery.

(e) The Issues of Accountability

The board is formally accountable to its regulators and funders to demonstrate the lawful, economic and prudent discharge of its responsibilities. Boards however are motivated by their social purpose and directors feel a moral accountability to the people who are the intended beneficiaries of the organisation's social purpose. This tension reflects the dialectic of power and resistance, where state power directs but the board may resist, while complying, in pursuit of its moral accountability to its clients.

(iv) Internal Structure of the 'Black Box' and Trade Bodies

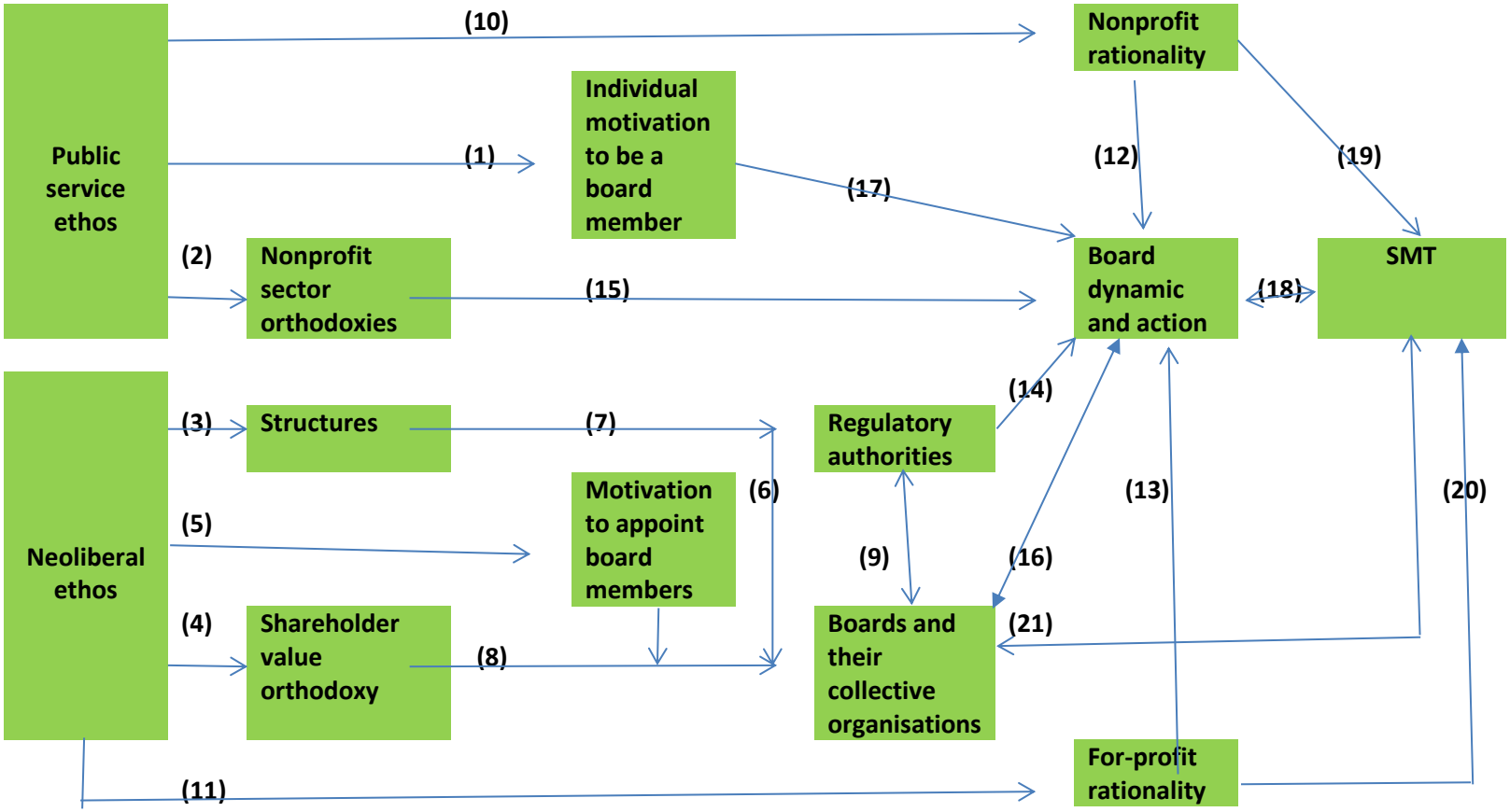
The model presents the two key components of the 'nonprofit black box' as the legally appointed board and the SMT. The degree of overlap between these two groups depends upon the norms of the relevant sub-sector. In any event, as a minimum, the chief executive will be present at the board, whether or not they are a formally appointed director. The interplay between these two groups and their varying interests, provides a key dynamic to the ways in which the board operates.

The model also shows the relationship of board to sector 'trade bodies' and to the regulator. The trade bodies represent the interests and views of their organisations to the regulator, government and the general public. These bodies also provide guidance to their members on 'best practice' and other practical advice, which includes interpreting regulation. The trade body thus acts as an important part of the power, resistance, and feedback process.

6.7.2 Flow Model of Corporate Governance

Figure 2 describes the interactions of the components of nonprofit governance which were identified in Figure 1 in terms of power and tensions. The ‘flow model’, which is shown in Figure 2 below, is followed by a discussion of the interactions (marked as numbered arrows) between the proposed components of governance (shown as green blocks).

Figure 2: Flow Model of Nonprofit Corporate Governance



Axial Codes

1. **Clash of orthodoxies**
2. **Clash of motivations**
3. **Regulatory versus board collective power**
4. **Clash of rationalities**
5. **Effective board duality**

The ‘flow model’ is now described under the headings of the axial codes: clash of orthodoxies; clash of motivations; regularity versus board power; clash of rationalities; and effective board duality.

(i) Clash of Orthodoxies

This model proposes that nonprofit corporate governance operates within the context of a clash of public service and neoliberal ethos. The public service ethos accords with the intrinsic motivation and sense of moral duty, which drives a person to be and remain a non-executive (arrow 1). The model then illustrates the proposal that the public service ethos is an important component of how the nonprofit sector views the world (arrow 2).

The neoliberal ethos, through NPM, leads to the creation of nonprofit sector organisations and structures governed by autonomous boards, which are expected to operate professionally and in accordance with agency theory and the shareholder value view of corporate governance (arrow 3). This construction is a means of promoting the ideological and policy objectives of efficient delivery of services (arrow 4). The shareholder view emphasises the role of principal / agency theory in nonprofit governance; which is reinforced through ‘good practice guidance’ produced for example in the NHF Governance Code (2015).

(ii) Clash of Motivations

The public service ethos provides a motivation for both executive and non-executive directors of nonprofit organisations (arrow 5). In the neoliberal ideology, people with professional skills are expected to be appointed to nonprofit boards to use their skills to govern in the same way as for-profit organisations, focusing on efficiency, rather than social purpose (arrow 6).

(iii) Regulatory Versus Board Collective Power

Since no true markets exist, quasi-market structures are created which require a regulatory body of some description for each nonprofit sub-sector (arrow 7). However, the same orthodoxy

which created independent boards allowed them to create ‘trade bodies’ in a similar manner to for-profit organisations. (arrow 8). These trade bodies represent the interests of the nonprofit organisations in interactions (arrow 9 with the regulator (as well as the wider political scene).

(iv) Clash of Rationalities

The board dynamic and its actions have, at their heart, the clash of rationalities. The public service ethos leads to a nonprofit rationality, based on social purpose (arrow 10), while the neoliberal ethos generates an economic based rationality (arrow 11). These two competing rationalities are evident in: board deliberations (arrows 12 and 13); the power and influence of the regulator (arrow 14); sector norms and values (arrow 15); interactions with trade bodies (arrow 16); and the motivations of the individual director (arrow 17).

(v) Effective Board Duality

The two loci of power on the board are the legally constituted board itself and the SMT. The membership of these two groups may overlap, but they remain distinct groups. The interaction between the two groups is represented by arrow 18. The SMT embraces the nonprofit rationality (arrow 19) to drive the social purpose of the organisation, but also uses the for-profit economic rationality to deliver regulatory requirements and support the economics based decisions necessary to support social purpose (arrow 20). The SMT is also the organisation’s main link with trade bodies; and develops organisation to organisation links to promote a collective approach (arrow 21).

The axial codes identified in this model are now discussed in detail in Section 6.8.

6.8. Axial Codes

The processes set out in the previous sections led to the construction of axial codes, which are now considered using the structure defined by the paradigm method, as described in Section 5.3.3 above. For each axial code, the phenomenon is considered, and relevant literature is

considered. While the axial coding process de-contextualises the analysis from the specific data as part of a body of evidence to establish relationships which provide a better understanding of the properties; the following sections which discuss the axial coded contain a number examples from the data. This is to ensure that the developing theory remains 'grounded in the data'.

This section considers the axial codes established in Figure 2, as the: (i) clash of orthodoxies; (ii) clash of motivations; (iii) regularity versus board power; (iv) clash of rationalities; and (v) effective board duality; which is followed by (vi) a consideration of the relationship between axial codes and categories.

6.8.1 Clash of Orthodoxies

There is a conflict between the orthodoxy of shareholder value which stems ultimately from the Anglo-American private sector, and that of the UK public service culture. As discussed in Figure 1 above, private sector based corporate governance culture gives rise to the structure of governance in the nonprofit sector through ideology and NPM; while nonprofit governance is enacted under the dominance of the public service culture. The phenomenon is thus the conflict between the ultimate purpose of governance as seen by the nonprofit sector and by the political and regulatory environment. The causal condition and context are the historically based introduction of corporate governance and the traditions embodied in the public service ethos. This dialectical struggle of these opposites synthesises into the way the nonprofit sector corporate governance operates within the legal structures.

The literature review on social groups demonstrated how and why orthodoxies occur. The political and power structures, which reinforce each of these orthodoxies; arise from the different historical path dependent ways which were discussed in Chapter Four. The analysis of the data identified a clear tension between: the way in which directors of nonprofit organisations viewed what they did; and the requirements of the regulatory environment, which

stem from the tenets of neoliberalism and processes of neoliberalisation. Five examples from the data are presented below.

(i) At a school governance workshop attended by a range of executive and non-executive school leaders, there was general agreement with the belief expressed: that while schools are very similar they are distinguished by their specific values and ethos, where collaboration featured prominently. It was agreed in further discussion that collaboration is a 'belief set' of practitioners, and that these practitioners, in general, do not appear to agree with the neoliberal concepts of the quasi-market embodied in the education system. Further, that in view of maintained education sector practioners, governance is grounded in a belief in collectivity, mutual support and co-operation; rather than an individual organisation (school) focus.

(ii) At a conference of social housing practitioners and academics, it was agreed that the UK government's housing reforms seem to be designed to undermine social housing through measures aimed at moving tenants from rented to starter homes (home ownership). This is an example of practitioners believing that the provision of social housing is politically driven. Further, at this conference, practitioners demonstrated a general antipathy towards the private rental sector, which it associated with exploitation of tenants under the general neoliberal world view.

(iii) The board discussed the issue of building homes for sale under a government scheme, with which it disagreed in principle. However it decided that it was important to bid (or rather not - not bid) for funds to deliver this government initiative because the organisation should be seen to be 'making an effort' to support government policy, and that failure to do this may risk a regulatory response.

(iv) The historical culture of the nonprofit social housing sector is based on the belief in the principle of tenant involvement, manifested by the orthodoxy of tenant democracy. A

board paper on tenant involvement stated that its purpose was to "strengthen compliance with the HCA regulation", but the board was unanimous in its view that it wanted to improve tenant involvement and engagement on ethical grounds, not to satisfy the regulator.

(v) This clash of cultures was manifested at a board working party comprising non-executive and executive directors. There was a clear tension between the views of the executive directors who were immersed in the sector orthodoxy and those of the non-executives who had had contrasting experience in other parts of the public sector and of the private sector. At a full board meeting this basic tension was exhibited in a discussion of contending business objectives of the main nonprofit board and one of its commercial subsidiaries.

This phenomenon is caused by the structure and ideology of neoliberalism where many of the responsibilities of the state are delivered through the nonprofit sector. The state (through its funding and regulatory agencies) is the 'principal' in agency theory terms. The state seeks to discharge its responsibilities using boards as the mechanisms of the regulated quasi-market. The nonprofit board sees itself as delivering social purpose, but is not necessarily restricted to conforming to the state's objectives. The ultimate purposes can thus be at odds with each other. The social purpose is the reason for the existence of the organisation and the sector and is the thing which binds its members together.

Nonprofit organisations operate within a culture of service, where the needs of recipients of the service are judged as paramount. They operate with a social purpose, rather than a profit motive, but they do so within the framework where the state funds them to deliver the former's responsibilities to deliver services based within a charitable framework. The conflict of purposes arises directly from the market approach to the reform of public services. Structures have been created where services are delivered through regulated quasi-markets. This structure

sets up conflicts of purpose between the funding / regulatory authorities and those delivering the services.

The regularity framework is principally concerned with ensuring delivery of services according to the commissioner's requirement concerned with value for money and the achievement of its political aims. The pressure from public expectations, and the 'collectivist' views of the nonprofit sector itself promote a focus on the delivery of social purpose. However, government emphasis on demands for improved delivery efficiency, through quasi-markets and regulation, places a continuing strain on the delivery of this social purpose. The state continually adjusts its regulatory frameworks in response to this contradiction. The nonprofit sector continues to hold to its social purpose; but complies with regulation. As a consequence of the NPM reforms, the state cannot simply instruct the nonprofit sector to 'do as it is told'.

> This was demonstrated by the reclassification of the social housing sector as part of the public sector by the ONS in 2016 because of the high degree of government control. The government changed some of the regulations in 2017 to reduce this level of control, which has allowed the ONS to take the social housing sector out of the public sector.

Since organisations in the same nonprofit sub-sector have a commonality of purpose, they band together in 'trade associations' of various forms to lobby to influence government as funder and regulator to vary their approaches. The nonprofit sector seeks to deliver the social purpose 'despite' the regulator / funder, and both passively and actively resists regulation while complying with the law. The regulatory authorities are administrative bodies acting under statute and must fulfil their remit impartially, according to policy, and within their own funding constraints. Policy changes are in turn made by government in response to 'resistance' through lobbying by organisations and their collective representative bodies.

As an intervening condition, there is a strong acceptance of both the law and the general moral climate. This means that the for-profit and nonprofit orthodoxies are altered through changing context of external pressures of public expectations, government finances, and government policy changes. Nonprofit organisations recognise that to deliver social purpose, they must conform to regularity requirements and take account of the public and sector effects of league tables and public down gradings.

6.8.2 Clash of Motivations

The phenomenon is dialectical struggle between the different motivations for directors to act. On the one-hand the governance structures and expected methods of action are ultimately based on an extrinsically motivated for-profit sector. This motivation is concerned with issues of efficiency in the disposition of public resources, through the professionalisation of boards in the image of the for-profit sector. The political establishment, through NPM, seeks to allow people who are motived to use their technical skills to govern the nonprofit sector. On the other hand, nonprofit non-executive directors are generally intrinsically motivated by a sense of duty and a wish to deliver the social purpose of the organisation. They have internal drives or feelings such as moral duty, altruism and the conviction to aid society or societal groups, which cause them to volunteer to serve as board members. That is, they have opportunities to use their skills for an accepted good social purpose in an arena where there is a public expectation and acceptance of the concept of public service.

This section considers: (i) the motivations of directors of nonprofit organisations; (ii) the imputed motivations of the political and regulatory authorities; and (iii) the phenomenon which is the clash between the motivations as a driver of action.

(i) Motivations of Directors of Nonprofit Organisations

Intrinsic motivation is proposed as: a key driver for the non-executive decisions, actions and commitment; and the main reason why non-executives serve on board in unremunerated or poorly remunerated positions. The specific intrinsic motivation differs from person to person, and can be described, as discussed in Section 3.11.3 above, by using deontology, teleology, and virtue ethics.

Appointments to certain public and quasi-public bodies are made by local authorities and other public bodies, therefore it is reasonable to assume some element of political partisanship in appointments in these cases.

> Political parties encourage their activists to apply for directorships in public bodies to strengthen the world view of those parties on such bodies and hence the delivery of public services according to their political priorities. The organisation 'ConservativeHome' passes on a published monthly list of such vacancies to its subscribers.

This approach supports, at least an intuitive level, a perspective that the world view of board members is a key element in any decision making, rather than just a rational choice or even a satisficing approach.

There is also potentially self-esteem and status associated with being a board member particularly in a substantial organisation, which includes the prestige associated with the formality and ritual of office.

Since a nonprofit organisation's aims represent its central purpose, the people recruiting a new board member must be convinced of that the applicant understands and sympathises with those aims. Sympathy with those aims represents an important reason for the wish to serve and continue to serve on the board. While the applicant may simply wish to be a member for other

reasons, there must be a demonstration of empathy for the social purpose of the organisation when applying and joining the board. Further it is important to believe that as a board member it is possible to make some sort of contribution towards the delivery of the organisation's social purpose. Once recruited this identification and sympathy is reinforced by the interactions with the organisation and the remainder of the board. There are extrinsic and intrinsic motivations for executive directors. However, to become an executive director, it is necessary to be socialised into the ethos and culture of the sector and organisation.

It is possible to summarise the motivations of people to become and remain nonprofit directors as: extrinsic - by gaining a track record for curriculum vitae purposes, and building actual experience to increase effectiveness in other work; and intrinsically - by obtaining personal satisfaction arising from being able to use personal and professional skills, and self-esteem, and sense of 'making a difference'. The social group issues such as personal bonding, sense of loyalty to other board members, and feeling being a part of a board community can be argued to apply to both for-profit and nonprofit boards.

The causal condition of the contradiction between the two motivational bases is the historical, path dependent introduction of neoliberal concepts and structures within the context of a strong UK tradition of public service. This tradition applies to both executives who work in the sector and non-executives who may have one ethos in their for-profit jobs and another in their nonprofit roles. Executives, as paid officials, do not necessary have to have these feelings of moral duty, but their chances of rising to become directors are slim if they do not or have not become socialised into this. These intervening conditions allow for nonprofit corporate governance to enacted under the main motivation of moral duty, but in a continuing environment of contention between the motivations of the individual and of the political environment.

(ii) Motivations of the Political and Regulatory Authorities

The political motivation is derived from the neoliberal world view, whereby the state seeks to introduce for-profit skills and values to increase the efficiency of the nonprofit sector. This exists within the context of a general societal acceptance of selflessness as a motive of the leaders of nonprofit organisations; high expectations by society of probity and high ethical standard of non-executives and executives; and the frameworks for boards in the nonprofit sector as established in legislation.

Four examples from the data are provided to support the view from the sector of the motivation of the political and regulatory authorities.

(a) An education sector meeting of trustees was organised by the Regional Schools Commissioner (RSC) to gain the support of the educational establishment (both the professional teaching staff and members of governing bodies) for the policy of academisation and to induce the school leaders to form MATs. (Education policy and its continuing reforms is at the heart of political ideology and debate (Pickerden et al., 2015)). The meeting reflected the significant levels of resistance within the sector to this policy, due to the underlying world views of the profession being at odds with neoliberalism; and reluctance to change generally. Thus, while the educational establishment has different political views generally to the government, it must implement policies even when it disagrees with them. The government, through its departments and agencies, will deliver its policies through regulation, funding rules, and through 'marketing' its policy ideas to those who must implement them.

(b) At a meeting of trustees of a MAT, it was recognised that while there was general opposition in the past to the government's 'ideologically based' policy of academisation, it is a key driver in education. It was argued that while the organisation had to accept this, it should be based on the specific co-operative values of its core founding members.

(c) As shown in a paper on the strategic vision presented to a board it was argued that: the regulator is a key audience for the plan; government policy is a key driver for the sector; and also the main risk for public and quasi-public sector organisations. At a further board meeting it was re-stated that the top risks for the organisation were the effects of various government policies.

(d) In a health charity, financial pressures caused by systematic reductions in government funding and the effects of competitive tendering in this environment posed serious risks to the organisation due to its almost total dependence on government contracts.

(iii) The Phenomenon.

The structures of nonprofit boards are determined politically or administratively, founded on the underlying governance and political theories interpreted by corporate elites (Price, 2016). Miliband (1969) argues that while "this looks like an avoidance of politics and ideology: it is in fact their clandestine importation into public affairs" (pp. 52-53). Governance theories are transmitted to boards by such mechanisms as 'sector good practice guidance'. While the guidance is based on accepted principles, the form and emphasis of this guidance is rooted both in the tradition of the particular sub-sector and the nature of the governance experience of its audience.

For example, the various guidance documents for the NHS and social housing are designed for relatively small numbers of professional directors. The DfE provides guidance representing the view of the government department on the best way that governance should be carried out by the very large number of non-professional school governors. Guidance is also produced by independent organisations such as the NGA with the aim of improving the effectiveness of governance based substantially on agency theory to the benefit of the social purpose.

Boards prepare for inspections and may use external consultants to assist them to prepare for inspection. This assistance includes detailed project timetable for the collation of documents and last-minute preparation for the relevant board members, so the board can present the best picture of governance in the organisation to the inspector. Thus, formal compliance, as determined through inspection, does not necessarily link to the actual effectiveness of governance.

Board members are regarded by regulators as 'voluntary but not amateur', and guidance is intended to promote professionalism. For example, governors of schools may not be experienced in holding effective meetings and need to be advised in guidance how to do so. While the weight of inspection falls on the chairs of the board and of the audit committee, and the chief executive, it also weighs heavily on the minds of all the executives and non-executives. The regulatory inspection would seem however to achieve one of its intended purposes of driving the non-executives to obtain a good knowledge of their organisation.

The intervening conditions are framed around the explicit drive for the professionalisation of boards, which has the aim of ensuring that organisations are properly and effectively governed and managed. This seeks to ensure the effective and efficient delivery of government priorities and ensuring public confidence in the nonprofit sector generally. This also can be argued to carry through the for-profit ethos and professional practices into the nonprofit sector, which is moving away from representative democracy in the provision of services.

Once appointed, the non-executive board member operates within the protocols and norms of the board, and become socialised into the culture of the sector and the organisation. There may however be clashes of culture (particularly for board members from the private sector) at this level between the norms of the nonprofit sector and those of the for-profit sector.

The consequence is that the intrinsic motivation of the non-executive guides them to see the recipients of the organisation's services as the people for whom they must operate. As opposed to the for-profit sector where, in theory at least, the shareholders' interests are paramount.

6.8.3 Regulatory Versus Board Collective Power

The phenomenon is the conflict and interaction between the power of board and the sector with that of the regulator. The main actors in this relationship are the boards of the organisation, collective groupings of sub-sector organisations, and the sub-sector regulators. The phenomenon is thus the subject of power and the ways in which the key actors use their power to achieve their aims and seek to counter the power of other actors.

This section considers the (i) application of concept of power, (ii) its relationship with governance and accountability, and (iii) regulatory theories in the context of the nonprofit sector. The phenomenon is described in section (iv) in terms of the responses to regulation by the regulated, including the causal condition, context, intervening conditions, actions/interactions strategies and consequences.

(i) Application of the Concept of Power

Power is exhibited in a number of forms: the political and economic power of government; the power of regulators who seek to ensure that nonprofit providers deliver services in line with political priorities; 'emotional' power of what is expected by the general public (public expectations of morality); 'personal / interpersonal' interactions of the board where actors are able to deliver their own views; power of the CEO / SMT over the board; board control over the organisation; and the organisation's control over the recipients of services.

(ii) Relationship with Governance and Accountability

The structures, practices and language of corporate governance brought about through NPM have become commonplace in many parts of the public sector (Cornforth and Chambers, 2010).

This however can cause difficulties in the way in which board members see themselves fulfilling their roles as shown in the following three examples from the literature.

(a) The Audit Commission (2003) notes that "[m]any councillors involved in scrutiny are less clear about their roles than those in the cabinet. Many believe that scrutiny is less effective than the previous system and are concerned about the effect that this may have on the quality of decisions made. Non-executive councillors are struggling with their role in 'scrutiny', whereby they hold their executive colleagues and other organisations to account, develop policy proposals and review services" (p. 10).

(b) In the NHS, early reforms involved bringing outsiders into the boardroom of NHS bodies, in particular hospitals, for the purpose of providing guidance on commercial practice ('service') and to foster internal, non-clinical challenge ('control') to NHS managers. The ICSA (2011) argue that evidence suggests that non-executives have had an impact on monitoring the executives, the 'control' function, while attention to strategic issues, the 'service' function, faltered. In a sense, therefore, these reforms seem to have focused on adding extrinsic motivations of targets and budget, while potentially disrupting intrinsic ones (Nordberg, 2013).

(c) In the social housing sector, despite the differing funding and participative requirements of public bodies, the adoption of corporate governance structures drawn from the private sector has been common (Brennan and Solomon, 2008). These changes reflect a focus on professional management by housing regulators and a more commercial approach by many providers (McDermont, 2007). Registered Social Landlords (RSLs) are expected to adopt private sector governance principles as defined in the guidance provided by the NHF. Malpass (2000) argued that because the performance of social housing sector is monitored by the regulator, combined with the employment of full time professional staff, means that board members have very little real work to do; they

are not in control of strategy in any real sense; and probably delude themselves if they believe that they make much difference or represent anyone but themselves.

(iii) Regulatory Theories in the Nonprofit Context

While organisations and people subject to regulation, comply with regulation; they do not necessarily have to accept the validity or world view on which it is based. Ashworth et al. (2002) identify a common set of problems in the operation of regulatory regimes such as: resistance by regulatees; ritualistic compliance; regulatory capture; performance ambiguity; and data problems. They are however, unable to "locate any comprehensive theoretical framework on the reasons for variations in the severity of regulatory problems" (p. 197). They further observe that "regulation was found to be most problematic in local authority services (especially direct service organisations and housing departments), and least problematic in other sectors (particularly universities and housing associations)" (p. 209).

The importance of the regulator cannot be understated for bodies in the public and quasi-public sectors. The analysis of the data developed the construct that boards are very concerned to comply with the regulatory framework, in order not to incur sanctions or public opprobrium. Thus, while there is no overt resistance to the regulator, this compliance can be categorised as 'ritualistic' in that processes are observed, and decisions recorded as evidence of compliance. In the social housing sector, for example, the board believes that it must evidence its compliance and the effectiveness of its governance to the regulator through its board minutes. The board and the executive are concerned not to do anything, or refrain from doing anything which could cause the regulator to 'downgrade' the organisation's public viability and governance grades.

When a task and finish group was considering a bid for HCA capital an executive director remarked that "failure to at least make a token gesture in these areas was seen

to be prompting an IDA (a regulatory inspection) with possible governance downgrading for 'not trying hard enough'".

The prospect of a regulatory inspection weighs heavily for the board, the executives and the organisation. One of the outcomes of an inspection is the published report and / or grades, which is a major consideration as an outcome of an inspection. Therefore, the organisation prepares intensively for these inspections. The 'threat' of an inspection being triggered makes boards ensure that its awareness of the external political and regulatory environment is evidenced through presenting papers to the board to note, which set out these issues. This generates forms of compliance which are not necessarily linked to actual performance. Similarly, in the education sector, many activities are carried out to comply with OFSTED requirements.

At a governors' committee meeting, a governor stated that they would be "carrying out 'necessary' school visits to check the development plan in the following week": - necessary - as required by OFSTED.

Operational performance reporting is also carried out to conform to the requirements of the regulatory regime, even if this is not considered as 'accurate or useful'.

On one education board, the chief executive was able 'explain away' reported underperformance in terms that the reporting required by OFSTED is not appropriate for the school.

It appears that while a regulatory body seeks to drive compliance through their enforcement mechanisms, the aim is to strengthen the culture of 'conformity'. This reflects the view of accountability of the board to the regulator not to its service users.

(iv) The Phenomenon

The interactions between the power of the state operating though the regularity regimes and the power of boards thus represent the phenomenon. This interaction operates in a cycle with policy driving funding and regulation; the response by boards is to deliver their own agenda within the regulatory context. The boards through their sector organisations seek to change policy. The causal condition for this power struggle is the structure of the quasi-market itself, which operates within the tension between the neoliberal ideology and the public service values. However, the impact of these conditions is mitigated by the law-abiding culture of members of the board. As a consequence of this struggle, the deliverers of public services do not passively transmit government policy; but will always operate within the law to deliver what they believe to be the social value 'despite policy'.

6.8.4 Clash of Rationalities

The concept of different rationalities was discussed in Section 4.1. The phenomenon is the contradiction between the rationality which underlies social purpose driven nonprofit governance and the different rationality which underpins the neoliberal approach. While conforming to the legal requirements of the state, board actors use rationales which are based on: its nature as a small social group with group emotions; and the public service ethos. The rationale for action or decision is based on achieving social purpose as an organisation, and the board member's morality based motivation. That is, the contradiction relates to the interaction between this rationality and the politically constructed quasi-market structures which define the arenas within which boards act.

A basic rationale for the creation of the quasi-market is to bring 'greater efficiency' into the public service through 'commercially based' management techniques which use a more financially based investment approach. That is, the public service ethos focuses on social purpose, the 'client', and has a collectivist and anti-market approach, while the neoliberal ethos

elevates “market-based principles and techniques of evaluation to the level of state-endorsed norms” (Davies, 2013, p. 37).

This phenomenon exists in the context of board members who are largely intrinsically motivated and have also become socialised into the world view of the sector. This provides the rational basis for all actions such as decision making, challenge, and strategic direction, which is directly counter to the neoliberal rationality ‘thought collective’ (Brenner et al., 2010b; Mirowski and Plehwe, 2009), upon which corporate governance norms are based. This effect is mitigated by a continuing regulatory drive to influence not just what boards do – but how they think. This is achieved through ‘best practice – how to guides’, and the increasing professionalisation of boards required and expected by those guides.

Thus, while the board focuses its strategic decisions on the delivery of the organisation’s social purpose, rather than economics, the funding and regulatory regimes seek to direct actions towards delivery of policy and of achieving ‘value for money’ as a key measure of that delivery. The sector continues to self-reinforce its social purpose(s), while both carrying out lobbying and conforming to regulation.

The consequence of this tension is that nonprofit boards act formally and informally in the pursuit of social purpose; against the ‘threat’ posed by the funders and regulators. The rationality based on social purpose drives actions, while economic rationality is used as a tactical investment tool and as a demonstration of compliance to the regulator.

6.8.5 Effective Board Duality

The phenomenon is the tension and dynamic caused by the existence of the legally appointed board and the SMT within the boundary of the corporate ‘black box’. The former has legal responsibility for the organisation and ultimate authority, while the SMT has power and authority in the organisation but no legal responsibility. The power and influence of the SMT

exists by virtue of: the formal structure of trustee boards; the board's non-operational governance role; the sector norm of the existence of an SMT; and the expectation of the sector that the roles of this body should be to both advise the board and implement its decisions.

Senior managers have an important role and impact on organisational outcomes because of the decisions they are empowered to make for the organisation, which are consistent with their personal values and experiences (Smith et al., 1994). The respective roles and powers of the legal board and of the SMT means that there is conflict in decision making which is argued may improve nonprofit organisational decision making (Schwenk, 1990).

The phenomenon is caused by the neoliberal driven governance structure which created boards with either all, or a majority of, non-executives, who are totally reliant on the executive directors. The historical and political context for this structure arises from the neoliberal ideology and the historical structures of public boards comprising only trustees. The operation of boards acting in this context is an interplay between non-executives who meet only intermittently and the SMT as an organised group of executives under the direct control of the chief executive.

This structure can be argued to give the legally constituted board the responsibility for the organisation without power, and the SMT the power without legal responsibility. This is mitigated through sanctions, or the threat of sanction, by the board. The board has the power of challenge and the potential for challenge. The executive directors take this power seriously, because of: professional pride; reputation; and career progression, which relies on them effectively serving the board by anticipating and responding to the board's needs. In the last instance, the board has the power to remove the chief executive if that officer does not perform adequately or appropriately. This power of sanction is set against the socialised commonality of world views and identification with the sector and organisation. As a consequence of the

existence of this structure, it is necessary for the chief executive to organise the executive into a non-statutory formal committee in order to fulfil the functions the board expects. These functions include giving full considered the items put before the board for monitoring, decision or ratification, under the express authority of the CEO. Similarly, the SMT makes efforts to understand the wishes of the board so that it can prepare papers which support the board's strategic direction. It expects challenge from the board and prepares accordingly. It is these two aspects which play a significant role in establishing the dynamics between the SMT and the board.

As a consequence of these factors, the sector wide structural response is for the chief executive to create an SMT. This arose historically, and it seems reasonable to believe that it persists because chief executives who come from the sector were inevitably members of an SMT themselves before they became chief executives. The power of the chief executive, whether or not a member of the legally constituted board, is reinforced by the existence of the SMT, and the direct power which the chief executive has over individual members of the SMT. The effective duality arises from the governance processes which depend heavily on SMT participation in all aspects of the board functions.

6.8.6 Relationships between Axial Codes and Categories

The axial coding process reorganises and de-contextualises the categories and sub-categories. As part of this process, the complex relationships between the categories, sub-categories and the axial codes, are iteratively considered. The axial coding model illustrated the relationships constructed between the categories, identifying the five axial codes: clash of orthodoxies; clash of motivations; regularity versus the board collective power; clash of rationalities; and effective board duality. The relationships are now summarised.

(i) The 'political, regulatory and ethical environments' category provides the background for the conflict between neoliberal driven state structures and the ways in which boards

act to achieve social purpose. The political and regulatory sub-category represents the interests and views of the neoliberal state which include the motivation to improve efficiency, which are in contradiction with the orthodoxies of the nonprofit sector which rest on the values and culture of social purpose and public service.

(ii) The individual director is intrinsically motivated to join a board and is further socialised into the norms of the organisation and sector. This category supports the clash of orthodoxies, clash of motivations, and clash of rationalities. The orthodoxies of the regulatory state are based on for-profit governance practice, which are at odds to the intrinsic motivation of the individual wishing to become a nonprofit director. The board recruits according to the need to comply with regulation and accepted good practice as well as the commitment of the director to the organisation's social purpose.

(iii) The 'nonprofit board structures' category is reflected in the axial codes concerning clash of orthodoxies and board power. The statutory bases of board structures provide the frame for the demonstration of professional board practice; but does not cover the existence of the SMT as a sector norm structure.

(iv) The 'actions of the board' category reflect actions as social groups with the key issues of challenge and assurance is concerned variously with all the axial codes. While the board acts within its formal powers and the expectations the regulatory authority, it does not necessarily agree with the world views of the state and regulators. Boards act to achieve the organisation's social purpose, rather than merely complying with government regulatory requirement. These actions are based both on economic and nonprofit sector rationalities.

(v) The 'power and influence' category plays a key determining role, principally in the regularity versus board power axial code. The main power relationships are between:

the regulator and board / organisation; and between the formally appointed board and the SMT and chief executive.

6.9 Core Category

A core category is the central category used to connect all other sub-categories (Howell, 2000), which best enables and facilitates the creation of orderly systematic relationships (Strauss and Corbin, 1990). The paradigm model is used to explain the core category in relation to its causal conditions, context, intervening conditions, action/interaction strategies and consequences.

This section integrates the categories generated during open and axial coding and develops a phenomenon which gives explanatory power to the relationships among the categories. The propositions suggested in Section 6.5.6 are then used to indicate the generalised relationships between the categories. A core category is then constructed and interpreted, using the paradigm model, and its relationship to the axial codes considered.

6.9.1 Principal Contradiction

The coding process generated the model described in Figure 2, Section 6.7.2, which identified that all five axial codes. Subsequent discussions argued that these were all ‘clashes’ between the contradictory elements of: orthodoxies; motivations; powers; rationalities and elements of the board. The struggle between these contradictory elements is the fundamental cause of the development; and leads to the dialectical construction of the principal aspect of the contradiction as the ‘clash of neoliberal and public service world views which exists at every level of the nonprofit sector’. This contradiction is thus the same as the core category.

6.9.2 Interpretation Using the Paradigm Model

The paradigm model is now used to interpret the core category as the interaction between the state, which imposes and promotes the view of corporate governance derived from the for-profit sector, and the opposing world views of the nonprofit which although legally compliant,

opposes the neoliberal view by applying a public service world view to its actions. That is, while nonprofit governance operates within the neoliberal framework of quasi-markets and regulatory frameworks, this framework is opposed by the public service orthodoxy espoused by many in the nonprofit sector, particularly those in positions of power within the sector.

In summary, this core category is connected to all other sub-categories: the five axial codes, discussed in Section 6.8, deal with the struggles or contradictions between various world views and their applications to practice. The central phenomenon then a dialectical struggle of opposites; that is the principal aspect of the contradiction.

The causal condition of the core category arises historically from the success of neoliberal ideology in changing the political climate and the consequential imposition of quasi-markets and for-profit style governance and structures onto the nonprofit sector. Counter-posing this, the UK nonprofit sector has a long tradition of public service values which reject the neoliberal world view.

This clash of world views exists within the context of: legal frameworks; nonprofit norms and structures; and collective action by nonprofit organisations. Individual directors respond to this contradiction through their individual board and their collective organisations. The political and regulatory environment seeks to exert its power: politically through policy; legally throughs laws and regulation; structurally, through the creation of quasi-markets and boards; and ideologically, for example by casting the nonprofit sectors as inefficient and wasteful. The nonprofit sector operates within the structures and the law ‘operate within the system’. The board however makes decisions in pursuit of delivery of its social purpose, which may not be as required by government policy. Sub-sectors collectively seek to lobby and otherwise influence the government, regulatory authorities and the public to support this.

The main intervening condition which mitigates or otherwise alters the impact of causal condition on this phenomenon is the individual director's intrinsic motivation. That is, moral duty or altruism as the main motivations to act as a nonprofit director guides all board activities. Further, the actions of the board are based on the interpersonal, intergroup and intragroup dynamics. These interactions are particularly important between the legally appointed board and members of the SMT. The career success of SMT members is reliant on both regulatory compliance and success in delivering social purpose. This, combined with the regulatory requirement for a professional board, means that board decisions and actions must take into account both the neoliberal and public service aspects. Nietzsche (1908/1996) understood that keeping contradictory forces in tension can be a source of strength. Thus, in nonprofit governance these unresolved tensions where neither party can fully attain their objectives act to drive the sector forward, which in turn create further contradictions.

6.9.3 Conclusion

The core category (and principal aspect of the contradiction) is the 'clash of neoliberal and public service world views which exists at every level of the nonprofit sector'. The concepts and categories underlying the identification of this category are further tested in the Section 6.10, theoretical sampling. This leads to a consolidation in Section 6.11, which forms the basis for the substantive theory in Chapter 7.

6.10 Theoretical Sampling

Theoretical sampling is inherent in the grounded theory method by which data gathering is driven by concepts derived from the evolving theory, and by constant comparisons to other sources of information or events which will help to develop variations in the concepts (Strauss and Corbin, 1998).

This sampling was carried during and after the ethnographic data collections by means of: (i) two board workshops which considered board effectiveness and dynamics, with three board

chairs, three current or retired chief executives, four executive directors, and four non-executive directors participating; (ii) a regional meeting of housing sector chairs and chief executives; and (iii) separate unstructured interviews with a board chairman, chief executive, company secretary, and a member of an SMT.

This theoretical sampling was carried out to test and develop the key concepts concerning:

(i) non-executive director motivations;

(ii) socialisation;

(iv) values;

(v) wider social purpose;

(iv) interactions with the regulatory environment;

(v) perceptions of board effectiveness; and

(vi) involvement of the SMT in board decision making.

This sampling is now discussed under those headings.

6.10.1 Non-Executive Director Motivations

Many highly paid professionals give of their time willingly to nonprofit organisations as unpaid non-executive directors; driven essentially by a sense of moral duty to support a vulnerable segment of the population. The theoretical sampling sought to clarify the issue of intrinsic and extrinsic motivation by considering the perceived effects of payments to non-executives. The sampling found that there are varying norms in different nonprofit sub-sectors regarding payment. For example, payment of non-executives is: the norm in NHS trusts; a disputed area in social housing, where some organisations pay while others do not; state education where it is anathema; and simply not expected in charities. Payment can be regarded as a motivation which operates by being a token of appreciation that the organisation values the services of the director.

In an unstructured interview, a chairman stated that for many years he had willingly given freely of his time to various nonprofit organisations, but now only accepts such posts if they are remunerated. The amount of the remuneration is not relevant and small, but the fact of payment demonstrates that the organisation values and respects its directors.

Another chairman commented that while generally the question of payment to non-executives is not an issue of any importance, there have been occasions when it was raised. The chairman had to discuss the issue with the non-executive act to ensure that that person understood the accepted norms of the sector.

The theoretical sampling therefore confirmed the primacy of intrinsic motivation.

6.10.2 Socialisation

The effectiveness of boards is founded on the people who are recruited on the basis that their skills match the current and future requirements of the board. To be effective, directors need to act as a coherent group.

A board workshop agreed that new members should become socialised into the norms of the organisation and the sector. Board member appraisal processes were agreed to be good practice and to provide a strong basis for training and development of board members. This process also provides a formal basis for socialisation.

The chairman of a commercial subsidiary of a nonprofit organisation was appointed specifically for their experience as an executive director in a for-profit organisation and knowledge of the commercial marketplace. This chairman expressed frustration at having to operate within the nonprofit culture, and not able to make decisions in the same way as in the for-profit sector. This person was unwilling or unable to overcome this ‘culture shock’ and thereby be socialised into the nonprofit culture and values. He

subsequently resigned and was replaced by a main board non-executive director, who although was from the for-profit sector had become socialised into the nonprofit culture.

6.10.3 Values

Sector values and ethical views are an important driver for the way decisions are made.

In an unstructured interview, a social housing chief executive emphasised the importance of organisational values, which relate to community focus and the provision of range of services which help and support residents. He argued that resources must be tightly controlled to ensure the long-term viability of the organisation; but reflected on the antipathy of the nonprofit sector to the concept of profit by developing the theme of 'profit for purpose'.

This tension between 'social purpose' and the concept of 'profit' is allied to the antagonism of social housing sector professionals to private sector landlords specifically and the private sector generally.

6.10.4 Wider Social Purpose

Board members have a sense of 'wider social purpose' in which they express their empathy and sympathy through directing their organisations to deliver services which are of a wider scope than its strictly defined social purpose.

A board level workshop reflected on visits by board members made to operational sites which provided services which were not directly within the social purpose of their organisation. One member commented that the visit "showed a real mix of services provided", and another that "the visits gave a real insight into what staff do and how uplifting it was to hear what the team is doing there". A third board member commented on the difficulty of evaluating the worth of providing these services financially or with a social value methodology.

6.10.5 Interaction with the Political Environment

Nonprofit organisations understand that they operate within the power, influence of government and the regulatory authorities. However, they recognise that sector organisations operate primarily for the benefit of the organisations' clients.

> At a regional meeting of chairmen and chief executives it was agreed in discussion that while the political environment is a key driver for the sector it affects the way that the social purpose is delivered; but does not define or change the social purpose itself.

6.10.6 Perceptions of Board Effectiveness

Section 6.3.2 considered the structure and action of nonprofit boards, based on participatory observations. This theoretical sample develops this in terms of participation, tone, and interaction; using separate meetings of non-executives and the SMT to discuss the effectiveness of meetings. This consideration is concerned only with the meetings themselves and not how the board meeting actions translated into action and outcomes in the organisation.

> At a board workshop, the question of whether everyone contributed and whether anyone dominated was posed. A non-executive director of the main board commented that there were "mixed levels of involvement – perhaps a bit too civilised and polite with each other". A member of a commercial subsidiary said their meetings had "fewer papers and were 'more feisty'". The SMT group, which contained the chief executive, commented that "the chief executive puts her case quite strongly!".

This exemplifies the culture of nonprofit boards and the dual position of the chief executive, along with the relationships between the board and SMT.

> In an unstructured interview, a member of another SMT commented: "I write the papers for the … [board] member … He does not know anything about the area and so relies entirely on me".

At a board effectiveness workshop, a board member questioned whether the balance between strategic discussion and discussion about detail was correct. The question was founded on the observation by the non-executive director, that the agenda and papers, prepared by the executive, drew the board into discussion of detail rather than at the strategic overview. In the discussion, a non-executive director opined that they should challenge the executive more. This belief was developed through discussion into the idea that the board should require the executive to say: "this is the issue, these are the options we've considered, what do you think?" This brings out the importance of the subject of board challenge.

The time commitment and focus of board members is of importance since members meet for only a short time a few times a year.

At the board workshop, a non-executive director asked rhetorically, whether there were "some papers that we, as a board, do not need to see at all". That is, whether board time is being taken up by papers which could either be considered by board committee or by executive decision. Another non-executive director commented that he gets far more out of an informal discussion day than from formal board meetings and wondered whether there was a balance to strike. The chair suggested one way is to have more informal sessions more frequently.

6.10.7 Involvement of the SMT in Board Decision Making

Decisions are made by the board by considering papers presented to it, which are prepared by the SMT.

In an unstructured interview, a company secretary stated that "the SMT really tries to understand what the board wants and then deliver papers which achieve those".

> At a board workshop, a board member commented on the time commitment required of the SMT in the preparation of these papers. A board member (who is a retired chief executive) stated that before the SMT get to the stage of writing detailed papers, "perhaps they should ask the board for guidance on how they would want them written", through for example, a discussion paper a couple of months before a decision needed to be made.

This provides an example of the formal decision-making process and the ways in which members believe they should have more influence through timely interventions in those processes.

> An executive director commented that "sometimes writing a paper for others helps focus your thinking".

6.10.8 Consolidating the Data Analysis and Theoretical Sampling

This section consolidates the data analysis and theoretical sampling shown in the previous section, and provides a basis for the development of the substantive theory. The issues are presented under the headings of the suggested propositions shown in Section 6.5.6, which are summarised below.

(i) The political, regulatory, and ethical environment act directly and indirectly on boards and on the executive.

(ii) The nonprofit board structures are determined by regulation and by the views of the non-executive directors, supported by the SMT.

(iii) Governance is enacted through these formal and power structures.

(iv) Governance is ultimately enacted by the individual director …based on ethically based judgement.

(i) Political, Regulatory and Ethical Environments

This section discusses the ways in which these environments act on boards and the executive, under the headings: (a) frameworks; (b) professionalisation of the board; (c) the ethical environment; and (d) accountability;

(a) Frameworks

The analysis identified that while nonprofit governance operates within the neoliberal framework of quasi-markets and regulatory frameworks, this is opposed by the public service orthodoxy espoused by many in the nonprofit sector, particularly those in positions of power. The theoretical sampling, discussed in Section 6.10.1, confirmed this opposition, but noted that it is mitigated through the individual director's intrinsic motivation of moral duty or altruism.

(b) Professionalisation of the Board

The analysis of the relationships between categories, in Section 6.5.1, determined that environment influences the individual to become a board member through the creation of board structures based on professionalisation. This professionalisation of the board builds in a cultural acceptance of 'good corporate governance' practices expected by the regulator. Section 6.10.6 affirms that this professionalism is reflected in the ways which boards consider their own effectiveness and seek to improve their professionalism.

(c) The Ethical Environment

Participation on nonprofit boards takes place in the context of the nonprofit ethical environment. The axial coding analysis in Section 6.8.2 (ii), proposed that participation takes place within the context of: a general societal acceptance of selflessness as a motive of the leaders of nonprofit organisations; high expectations by society of probity; and high ethical standards of non-executives and executives as a norm. Nonprofit values and ethos, however also includes an antipathy towards the profit motive as stated in Section 6.4.2. The theoretical sampling in

Section 6.10.3 confirmed that sector values and ethical views are important drivers for the way decisions are made.

(d) Accountability

In Section 6.4.2 (iii), it was stated that board members recognise their legal obligations and accountability to the relevant regulator and funding agency, but also feel a moral obligation to ensure that the organisation fulfils its social purpose to the people for whom they provide their services. The theoretical sampling in Section 6.10.5, confirmed the view that nonprofit organisations understand that they operate within the power, influence of government and the regulatory authorities.

(ii) Structure and Operation of the 'Black Box'

The two suggested propositions set out in Section 6.5.6: 'nonprofit board structures are determined by regulation and by the views of the non-executive directors, supported by the SMT'; and 'governance is enacted through these formal and power structures' are considered together.

This section concerns the sector specific structures and operation of the nonprofit board; and discusses: (a) the SMT; (b) board practices; (c) challenge; (d) decision making; and (e) rationality.

(a) SMT

The data analysis developed the concept of the environment in Section 6.3.1 (iii); and recognised the existence of an SMT is a norm in the nonprofit sector. This body, which is under the control of the chief executive, both controls the organisation and is heavily engaged with all the processes of the formal board. The theoretical sampling identified the requirement of the SMT to be fully engaged with the board in order to ensure it delivers what the board wants in Section 6.10.7.

(c) Board Practices and Rituals

The ‘prestige, ritual, formality and respect’ sub-category, identified that all the meetings of the board, committees and task and finish groups have their own protocols, formality, rituals, management, and conducts. These formalities set the frame for respect and authority of the board. In Section 6.5.3 it was argued that the SMT operates with a similar degree of formality and ritual as the board, although in private.

The analysis in Section 6.4.2 argued that the board operates in a professional manner, with formal agendas with supporting papers generally prepared by the SMT, with the authority of the chief executive. Members always try to operate in accordance with accepted standards and norms of public service, such as the Nolan principles. This analysis was developed in Section 6.10.6 of the theoretical sampling demonstrating a reflexive approach to improving the professional standards of the board.

(d) The Concept and Practice of Challenge at Board Level.

Challenge is accepted as one of the core functions of the board, but the form of challenge for nonprofit organisation is modified by the context and culture within which it operates, as analysed in Section 6.4.5. The challenge exists firstly, as the non-executive challenge of the executive, and secondly the challenge posed by the regulatory authority on the board and organisation.

The theoretical sampling in Section 6.10.6 discusses the importance of the issue challenge as required by an effective board. In Section 6.10.7 the involvement of the SMT in board decisions, and the strength of the SMT’s position is implied.

(e) Decision Making Processes

It was proposed in Section 6.3.2 that decision making is not a single event, rather it is the final part of a process. This process generally includes the SMT and may also involve the board during the development of the recommended decision by the SMT. The theoretical sampling

in Section 6.10.7 showed that decisions are made by the board on the basis of papers prepared by the SMT, but also that the board can be involved in the process, and that the sector regulator to be a defining influence in the board decision making process.

(f) Rationality

Axial coding in Section 6.8.4 proposed that nonprofit rationality is founded on social purpose, while using economic rationality is used as a tactical investment tool and as a demonstration of compliance to the regulator. This conforms to a sense of 'wider social purpose' as the basis for certain strategic decisions in the theoretical sampling in Section 6.10.4.

(iii) Governance is Ultimately Enacted by the Individual Director

This section consolidates the issues associated with the individual director under the headings: (a) motivations; (b) moral duty and the commitment to social purpose; (c) identification; and (d) trust.

(a) Motivations.

Intrinsic motivation is identified, in Section 6.3.4, as a reason why people choose to become, and to remain as a non-executive director. This motivation can include self-satisfaction in serving a 'good cause', altruism, a sense of moral duty, self-satisfaction of being able to apply professional skills, self-esteem and personal prestige. Remuneration is not a motivation.

The motivation of the executive directors (whether board members or not) can include those identified for the non-executive, but also includes extrinsic motivation associated with remuneration and power. The theoretical sampling in Section 6.10.1 provided an example of this.

(b) Moral Duty and the Commitment to Social Purpose.

The sense of an individual's moral duty, which has been identified as one of the main motivations for the nonprofit director, is supported in the theoretical sampling in Section 6.10.1. The sense of moral duty is directed towards supporting the social purpose, which is central to

all nonprofit organisations, as argued in Section 6.3.1 (ii). The nonprofit organisations act in accordance with an ethical stance of providing for its clients. While the detailed interpretation of social purpose may be subject to debate in an organisation, there is a clear overriding commitment to the concept of social purpose by both executive and non-executive directors, the organisation and specific nonprofit sub-sector.

Section 6.10.4 of the theoretical sampling also confirmed that board members have a sense of 'wider social purpose', which is extends the core social and legal purpose of the organisation into broader areas means that organisations are directed to deliver services which are of wider scope that its strictly defined social purpose.

(c) Identification with the Organisation and Service Recipients (Clients).

Social identification occurs where the individual defines themselves in terms of his membership of a particular organisation or social group. The concept of identification arose as a category in Section 6.4.2 (iv), as identification with: the client rather with the regulator, which is seen as an external threat; and the organisation which delivers the social purpose. For the nonprofit sector the issues of identification and socialisation; with the organisation and with stakeholders are salient in discussed in Section 6.3.4. Evidence for socialisation was obtained in Section 6.10.2 of the theoretical sampling.

(d) Trust

Section 6.4.3 argued that credibility and integrity are the bedrocks upon which the board rests. Board members must feel able to trust each other in all their dealings. They must also be able to trust the executive and feel that they are acting in the best interests of the organisation and its clients. The involvement of the SMT in decision making, as discussed in Section 6.10.7, implies a deep level of trust by the board in the SMT and the commitment of the SMT to the board.

Seeking assurance is compatible with trust; and serves to strengthen identification between the board, the SMT and the organisation. It also gives the regulatory authorities confidence in the governance arrangements, as argued in Section 6.5.4.

6.11 Conclusion

This chapter described the data collection and analysis processes. Data collection using participatory observations were described in Section One, and the generation of open codes described in Section Two. These codes were then used in Section Three to create concepts of: political, regulatory and ethical environment; board functions, structures and processes; challenge; relationships; and motivations. These were then discussed in detail. These concepts were then put together in Section Four as open categories of: political, regulatory, and ethical environments; the individual director; nonprofit board structures; actions of the board; and power and influence. These categories and their sub-categories were then discussed, with examples from the data.

The relationships between sub-categories were reviewed in Section Five to yield suggested propositions, summarised as: the political, regulatory, and ethical environments act directly and indirectly on boards and on the executive; the nonprofit board structures are determined by regulation and by the views of the non-executive directors, supported by the SMT; governance is enacted through these formal and power structures, and the structures themselves provide the theatre within which directors act; and governance is ultimately enacted by the individual director, who acts on an ethical basis, which is the ultimate motivation for being a non-executive director.

Two related models for nonprofit governance were presented and described in Section Seven. The second model identified five axial codes: the clash of orthodoxies; clash of motivations; regulatory versus board collective power; clash of rationalities; and effective board duality.

These axial codes were then considered in Section Eight, and the connections between the axial codes and sub-categories established; and described using the paradigm model. This analysis identified that all five axial codes were 'clashes' between the contradictory elements of: orthodoxies; motivations; powers; rationalities and elements of the board. That is, the axial codes have in common the concept of contradiction, which forms the core phenomenon, and the basis of the substantive theory.

Section Nine then brought together these dialectical relationships together in the principal contradiction of the 'clash of neoliberal and public service world views which exists at every level of the nonprofit sector'. This principal contradiction is thus the grounded theory core category. This section then discussed the core category using the paradigm model, to connect to the other sub-categories. Section Ten described the theoretical sampling used to test and develop these key concepts and categories; and brought them together as a development of the suggested propositions.

CHAPTER 7: Substantive Theory and Conclusion

This concluding chapter is divided into three sections. Section One presents the substantive theory, which is based on the core category (and principal contradiction) of 'the clash of neoliberal and public service world views which exists at every level of the nonprofit sector'. The substantive theory is then discussed in terms of the three subordinate contradictions which flow from this at the: environmental; board; and individual levels. The substantive theory is then reviewed, in Section Two, to determine its relationships to behavioural, governance and corporate governance theories.

Section Three then sets out the contributions made by this thesis in terms of: methodology, through the application of a combination of ethnography and grounded theory; and the theoretical outcomes of that methodology. Finally, three areas for further research are proposed.

7.1 The Substantive Grounded Theory

Howell (2013) states that "theory is concerned with building substantive understanding, normativism and ideational simplification. Substantive models are built on the basis of data collected and normativism which determines theoretical frameworks that have an ethical or moral dimension. Theories entail different understandings of knowledge and truth, knowledge development as well as acquisition, application evaluation and critique" (p. 24). This means that theory can be understood as relating to distinct paradigms of inquiry.

The substantive theory is situated within the realms of social psychological, governance, and corporate governance theories. It describes the mutual interactions between the individual, the board, and the environment as interconnected systems. It defines the board sub-system, or 'black box', as encompassing both the boardroom, and senior management. The relationships within the 'black box' and interactions with the external environment are theorised in terms of individual, social group and power issues. These relationships are theorised, as argued by Pye

and Pettigrew (2005), through the analytical lens of power and politics, together with a more micro-process focus on trusting, influencing and problem solving.

Epistemologically, the substantive theory accepts that the path dependent historical contexts and values influence the inquiry. This means the recognition that the actors in nonprofit governance act within the frames set by generally accepted formal theories such as deontology and teleology, the meso-theories of corporate governance, and public value.

The substantive theory is based on the grounded theory core category, along with the subordinate categories which expand upon it. This core category is supported by the process of relating the axial codes to the core category using the paradigm model. The axial codes: (i) the clash of orthodoxies; (ii) clash of motivations; (iii) regularity versus board power, (iv) clash of rationalities; and (v) effective board duality, have in common the concept of contradiction.

The theory uses a dialectical approach which equates the principal contradiction with the grounded theory core category, which emerged from an analysis of the data. The nature of nonprofit governance is defined by the principal aspect of a contradiction, which determines or influences the existence and development of the other contradictions.

The principal contradiction is the 'the clash of neoliberal and public service world views which exists at every level of the nonprofit sector'. The principal contradiction drives the creation of different expressions of corporate governance in the various sub-sectors, which are determined through contingent, path dependent mechanisms.

That is, neoliberal orthodoxy, which is realised in the structure of the nonprofit sector is opposed in principle by the public service orthodoxy of the nonprofit sector. The thesis and antithesis are synthesised into the governance practices of the UK nonprofit sector which, while being within these structures operates in opposition to them with the aim of delivering a service to its clients 'despite the regulatory frameworks'.

The subordinate contradictions which flow from this are:

(i) at an environmental level, regulatory power versus sector power;

(ii) at board level, effective board duality (the formal board versus the SMT), decision making, power, and rationalities; and

(iii) at the individual level, the motivations (individual and a sense of duty).

These are now discussed in more detail.

7.1.1 Environmental Level Contradictions

The neoliberal ideology created the structures and governance frameworks within which the nonprofit sector operates. The concept that a regulatory authority is necessary to ensure that the state's policy objectives are delivered effectively and efficiently by nonprofit organisations is embedded within these structures and frameworks. Thus, the 'regularity state' is dependent upon the nonprofit sector to deliver its responsibilities to its citizens. The nonprofit sector is dependent on state frameworks and funding to fulfil its responsibilities and social objectives. This is at once, a power and dependency relationship for both parties who have different aims and rationalities. The state and its regulatory authorities focus on efficiency and cost effectiveness, while the nonprofit sector focuses on delivering social purpose within the resources available and conformity to the regulatory environment.

In this relationship, state power is derived from:

- a prevailing, but contested, neoliberal view of the role of the state which creates structures of independent (and professional) boards and quasi-markets;
- democratic legitimacy of the government which provides it the ability to set policy to create quasi-markets;
- the power to determine overall funding levels; and
- its administration, which commissions, allocates financial resources according to policy, and acts as regulators.

The power of the nonprofit sector and its organisations is derived from:

- its role of being the actual deliverer of services, which affects the practicality of policy implementation;
- recruiting and socialising new board members into the collectivist, public service view in opposition to the neoliberal view; and
- collective political influence, principally delivered through sector 'trade organisations' which seek to shape and reshape politics and regulation within which they operate.

The neoliberal ideology requires regulatory compliance by the nonprofit organisation, which constrains the freedom of action of boards, but this also creates nonprofit board independence. The board therefore must therefore balance the basis of its decisions making between: a collectivist the public service view, ethically orientated to deliver social purpose; and one driven by the regulatory need for efficiency and economy. Thus, the nonprofit sector is dependent on the state but in many respects, opposes the view of the 'hand that pays it'.

This relationship fundamentally rests on the changing relative power of the political and regulatory authority, and the sector. The result of this struggle between opposites is the ever-developing political environment in which: regulatory authorities regularly change their approaches to regulation; policies are changed as the result of lobbying and campaigning by the sector; and boards recognise and adapt to the principal risk to their organisation being changes of government policy.

In summary, the nonprofit sector operates within an ideological framework with which its members do not necessarily agree. The political and regulatory frameworks seek to transform this sector view through the structures of regulation, quasi-markets and professionalised boards.

7.1.2 Board Level Contradictions

The contradictions at board level are discussed below, under the headings of: accountability; the SMT; board practices and rituals; challenge; and rationality and decision making.

(i) Accountability

Nonprofit sector organisations do not have shareholders who have invested for a return. The state, through its regulatory and funding agencies, invests in, revenue funds, and directs the sector to achieve the government's policy aims. Sector organisations are effectively accountable to the state through the relevant regulatory authority.

Nonprofit boards are formally constituted according to specific legislation and have the same general responsibilities and accountabilities as for-profit boards. The neoliberal model for the nonprofit board is based on the for-profit board, populated by skilled professionals who do not represent the organisation's client group. However, nonprofit boards are focused on the delivery of social purpose; and use their professional skills for the benefit of the 'client'; and feel morally accountable them, rather than to the regulator.

(ii) SMT

As an historical and sector-based norm, the board operates as a legally constituted trustee board, supported by an SMT. The latter exists because the trustee board has only a non-operational governance role, and the expectation of the sector that the SMT should both advise the board and implement its decisions. However, the SMT is far more than a passive subject of the board, and seeks to guide, influence, and support the board in its strategy and decision making. In effect, the legally constituted board has ultimate authority and responsibility, but has little direct power. The SMT has no legal authority; but has great organisational power and influence over the board.

(iii) Board Practices and Rituals

The formal processes and rituals of the board shape: how it sees itself; how others see it; and its authority. The formality of board meetings provides: (a) a framework within which to conduct business professionally; (b) actual and symbolic authority for its decisions; (c) a theatre

where the actors play out their authority over the SMT and the organisation; and (d) a demonstration of ethical standards, probity and transparency.

(a) Professional Framework

The board is expected, by the regulator in particular, to operate in a professional manner, in accordance with generally expected standards of corporate governance. Board members are similarly expected to be sufficiently skilled and experienced to fulfil their roles as directors. This professional framework includes the use of: formal meeting agendas, supporting papers generally prepared by the SMT with the authority of the chief executive; and their proper consideration by board members using their independent professional judgement.

(b) Actual and Symbolic Authority

The board has actual authority over the organisation and its management through its legal powers. The board governs, and the management manages as directed by the board. The board expresses it authority through its leadership by: defining the organisation's social purpose; providing strategic direction; making key decisions; and holding the executive to account.

The board also provides symbolic leadership. This leadership can be expressed through being a public face of the organisation. However, it also be little more than a 'rubber stamp' for management's decisions giving legitimacy to managerial decisions.

(c) The Board Meeting as Theatre

Governance structures provide the forum for the conduct of business, as a theatre of formality and respect which directors inhabit. This theatre provides the means for people to demonstrate power, convictions, and motivations ranging from self-esteem to altruism. It also acts as the focal point for the informal processes of socialisation to common values of the board and organisation.

The players in this theatre are all the participants of the board meeting in their different formal and informal roles. There are both internal and external audiences for this theatre. The internal

audiences comprise: non-executives in their interactions with each other in debate or in creating atmosphere; non-executives as the audience to the executive in demonstrating their skill, knowledge, support or resistance to the board; and the executives, where the non-executives act out their power, criticality or supportive roles.

The external audiences are the: general public or public media, where the non-confidential parts of meetings held in public, such as in NHS trusts and state schools; regulator, through formal minutes or as part of an inspection; and organisation through (privileged) staff invitees and reports of the meetings.

The concept of the board as theatre thus provides the model where the meeting is 'choreographed' to achieve the results and impressions desired by the chair or by the dominant coalition.

(d) Ethical Standards, Probity and Transparency

There is a general societal acceptance of selflessness as a motive of the leaders of nonprofit organisations. The high expectations by society of probity; and high ethical standards of non-executives and executives are taken as a norm. The nonprofit non-executive is expected, and expects to, act in accordance with the common threads of public service ethos of: impartiality, accountability, trust, equity, probity and service.

The political, regulatory and ethical environment provides a strong framework for the standards of board behaviour and probity. Members are expected, by both the general public and the regulator, to adhere to the highest standards of probity in accordance with accepted standards and norms of public service, such as the Nolan principles.

The board operates within its formal structures, and its accountability must be transparently demonstrable to the regulator and the general public. The concept of theatre however, provides for the 'illusion of transparency' where decisions are effectively made 'behind the scenes', and decision making played out in public.

(iv) Challenge

Challenge is generally accepted as a key function of corporate governance; and as one of the core functions of the board. The substantive theory extends the concept of challenge from that of 'querying, clarifying, seeking justification, and arguing'; by proposing that it should be viewed in terms of the following interactions.

(a) Challenge is an expression of power relations between groups within the organisation, particularly between non-executives and executives. The balance of power between these two groups can define an organisation and the way in which the board effects governance.

(b) All the groups in the organisation unite in response to the external challenge of regulatory inspection.

(c) The response of the person or group challenged to that challenge may have either positive of negative results. That is challenge may be a creative force which develops a proposal or may the challenge may be resisted.

(d) The possibility of board challenge; and the prospect of rejection of an executive produced board paper, provides a mechanism which helps to ensure that papers are contain coherent arguments, so that the recommendations may be accepted by the board.

(v) Rationality and Decision Making

There is a contradiction between rationality which underlies social purpose driven nonprofit governance and that which underpins the neoliberal approach. The nonprofit board actors use rationales which are based on: its nature as a small social group with group emotions; the public service ethos; while conforming to the legal requirements of the state. Thus, nonprofit boards tend to take decisions using rationalities founded on social purpose; and use economic rationalities to support tactical investment decisions and as a demonstration of compliance to the regulator.

7.1.3 Contradictions at the Level of the Individual

The individual faces a number of contradictions associated the role of nonprofit director, which are to do with: motivations; moral duty and social purpose; social group membership; identification; and confidence, credibility and trust.

(i) Motivations

Non-executive directors are recruited from both inside and outside the nonprofit sector. Non-executive directors are generally driven by intrinsic motivations. However, a person's motivations are context dependent. For example, people who have (or have had) roles in the for-profit sector act in one way in the for-profit role and another for the nonprofit role, based on motivations relevant to the sector.

(ii) Moral Duty and Social Purpose

An individual is intrinsically motivated to become a nonprofit director, because of moral duty or altruism. (This however does not rule out certain extrinsic motivations such as career development through building experience on a board, but this is not the principal motivation). One motivation not found in the nonprofit sector is that of supporting the government or regulatory objective of increasing efficiency, which is a key ideological reason for bringing professionals onto the nonprofit board.

(iii) Social Group Membership

The individual non-executive director takes pride in using professional skills and judgement in the service of the social purpose of the organisation, but also acts as a member of the social group of nonprofit directors in upholding the interests of the organisation's clients, if necessary, against those of the regulatory authorities.

(iv) Identification

Non-executive and executive directors identify with the board, the nonprofit organisation and the sector. This identification represents a psychological attachment, which is the individual's

commitment, resulting from identification with the attitudes, values, or goals of the organisation. It also has an emotional component, that is, a feeling of affective commitment to the board as a group, and thereby to the organisation. The sense of moral duty, altruism and identification provide a link between an individual's voluntary participation and commitment to an organisation and to positive manifestations of altruism.

The individual director enacts challenge within this context of identification. The nature of challenge by the individual non-executive director of the executive is overlaid by the identification with the challenger with those under challenge.

(v) Confidence, Credibility and Trust

The confidence which individual board members have in each other, and with the executive is the bedrock upon which the board rests. This means that members should be: credibility: that is can be trusted and believed in; and have personal integrity by virtue of being honest and having strong moral principles. These qualities provide members with the confidence to: trust each other and, the executive; and feel that they are all acting in the best interests of the organisation and its clients.

7.2 Review of the Substantive Theory

This section considers where the substantive theory is situated within the various theories of psychology, governance, and corporate governance. Theories of corporate governance have underlying assumptions about the nature and motivation of its actors and of society, which range from self-interest, as a strong theoretical basis particularly for economic and governance theories, through to altruism as the assumed motivations. Therefore, the psychological, or behavioural bases, of nonprofit corporate governance are considered in the first sub-section. The relationship of the substantive theory with the general governance environment is then highlighted in the second sub-section. The third and final sub-section then discusses the relationships between the substantive theory and the main theories of corporate governance.

7.2.1 Behavioural Bases

The substantive theory is set within the behavioural ambit, which rests on the foundations of individual traits, and the interactions of social groups, underpinned by concepts of rationality, trust, and conformity. The most important aspects for the nonprofit sector are: social purpose-based rationalities; trust in other members and the executive; conformity with societal and sector norms; altruism; moral duty; and collective values rather than those of self-interest. These are underpinned by theories of: identity; social identity; social groups; rationality; and motivation, which are important in the description of nonprofit governance.

At an individual level, the substantive theory recognises identity as core to the ways in which structure and function are related to the behavioural roles played in society. These role-identities are self-conceptions based on enduring, normative, reciprocal ongoing relationships with other people. Thus, identities based on positional roles provide the individual with a sense of who they are and how they ought to behave.

Social identity is the individual's knowledge of belonging to a social group along with an emotional and value significance of group membership. The nonprofit sector has a distinctive social identity, unified, amongst other things, through common feelings of seeking to achieve social purposes, the community of empathy, and moral duty towards the clients of the sector. The way people act appears to depend on frame or context, which can be used to explain why the same person will act differently as an executive or non-executive director in the for-profit sector than as a non-executive director in a nonprofit organisation. This provides the logic which places reliance on the intrinsic ethical motivational basis in the nonprofit sector; accompanied by a specific rationality, which underlies much of nonprofit corporate governance.

The substantive theory recognises the importance of morality, and specifically the public service ethos, as a basis of individual motivation; with the latter’s common threads of:

impartiality, accountability, trust, equity, probity and service. The belief in values and socially role of nonprofit organisation is also important to those who work and govern in those organisations.

The substantive theory recognises nonprofit boards to have the same features as for-profit in terms of many of its dynamics, as discussed in Section 3.10 above. While the commonalities are grounded in the ways in which boards operate as elite groups responsible for the governance of an organisation; they are distinguished by the existence in the nonprofit sector of an SMT and their accountability.

7.2.2 Governance

The substantive theory is situated within the regulated and politicised environment of quasi-markets created by neoliberalism through NPM. Neoliberalism is taken as a theory of political economic practices, where the role of the state is to create and preserve an institutional framework appropriate to such practices. The substantive theory is based on the idea that the socialised world view of nonprofit directors and managers is at odds with this ideology; and its main foci are regulation, and the principal-agent relationship.

The dominant view of neoliberalism is as a form of state or a mode of regulation; which exist in all societies, with the objective of controlling activities of various markets, quasi-markets and the public sector. The regularity regimes mean that the boards of nonprofit organisations are often constrained in their ability to steer the organisation, because they are subject to a high degree of political direction and control from government.

While governance remains political by nature, comprising formal and informal institutions, decisions, and influences, the political and regularity environment has been made more complex by the creation of principal–agent relations throughout much of the machinery of

government and the nonprofit sector. The agency relationship is replicated in the organisation itself as required by the regulator and 'good governance principles'.

7.2.3 Theories of Corporate Governance

The relationship of the substantive theory, which is situated within the 'black box' field of behavioural theories of governance, is now considered in relation to: agency; shareholder and stakeholder; stewardship; institutional; resource dependence; and managerial hegemony theories.

(i) Agency

The behaviours of the board actors are based on the acceptance of agency theory as 'good governance practice'. The substantive theory argues that this acceptance is implemented at the regulatory, board, and SMT levels, in ways which reflect power relationships. Agency theory is concerned with resolving the conflicting desires or goals of the principal and agent.

In the clash of orthodoxies axial code, discussed in Section 6.8.1, the state (through its funding and regulatory agencies) is the 'principal' in agency theory terms. The state seeks to discharge its responsibilities using boards, as agents, as the mechanisms of the regulated quasi-market. The substantive theory proposes that the board is the agent in this respect because of its identification with the organisation's social purpose, and the view of the regulator as a common 'threat'. However, the nonprofit board can be regarded as a principal and the executive the agent in the delivery of the organisation's social purpose.

(ii) Shareholder and Stakeholder Theories

The scope of the substantive theory does not extend to for-profit organisations, where investors of capital expect a return. Some nonprofit organisations are incorporated as companies limited by guarantee or the equivalent and have shareholders; but there are no distributions of any kind to the shareholders. The capital invested in nonprofit organisations in the areas studied, is

ultimately derived from government; which requires only the delivery of the services for which the organisation was funded. The government is, in this respect, a stakeholder rather than a shareholder.

The substantive theory recognises the contradictions which exist between the interests of key stakeholders: that is, the governmental focus on efficiency which are to be delivered by boards operating under regulation in quasi-markets; the organisation's staff seeking to deliver social purpose; and the clients of the organisation receiving a service which they can regard as a right. The key challenges for stakeholder governance are thus the reconciliation of the competing claims of economic efficiency and those of social purpose. As O'Sullivan (2000) observed, the stakeholder perspective can be seen as more of a "political position than as an economic theory of governance" (p. 402).

(iii) Stewardship Theory

Stewardship theory has its roots in psychology and sociology, and was designed for situations in which executives as stewards are motivated to act in the best interests of their principals (Donaldson and Davis, 1991). Davis et al. (1997) argue that in stewardship theory "the model of man is based on a steward whose behaviour is ordered such that pro-organisational, collectivistic behaviours have higher utility than individualistic, self-serving behaviours" (p. 24). The substantive theory also makes significant use of psychological and sociological theories and, as with stewardship theory, is concerned with the issues of motivation, identification, power, and the cultural differences between individualism and collectivism.

In stewardship theory Davis et al. (1997) argue that, in contrast to agency theory, stewards "believe their interests are aligned with that of the corporation and its owners. Thus, the steward's interests and utility motivations are directed to organisational rather than personal

objectives" (p. 25). The substantive theory broadens this organisational view to include the intrinsic duty-based motivations of the stewards through the concept of social purpose.

The substantive theory applies the term 'steward' to both the board and to the management of the organisation and argues that identification occurs when these 'stewards' define themselves in terms of membership of social groups based on membership of: the board; the organisation; the sector; and those with a common world view. The substantive theory's inclusion of the concept of identification aligns with the stewardship view, where individuals identify with their organisations, and thus become readier to engage in cooperative, altruistic, and spontaneous unrewarded citizenship behaviours (O'Reilly and Chatman, 1986; Smith et al., 1983).

Davis et al. (1997) argue that power is an important aspect of the relationship between a principal and a manager; in that managers receive satisfaction from, and are motivated by, the use of power. The substantive theory extends this view of power into that of the dialectical relationship of power and resistance, and to the struggle between the stewards and the 'principals'.

(iv) Institutional Governance

The substantive theory places importance on the political and ethical environments, which accords with the concept that institutions are based on the existence of a set of normative systems which persist, in varying forms and content, in all societies. This nexus of norms, values, and taken-for-granted assumptions about what constitutes appropriate or acceptable economic behaviour is rooted in conformity and common understandings about what is appropriate behaviour.

The substantive theory situates nonprofit governance specifically in power relationships between the government, regulator, board, and executive. This reflects the proposition that

institutions are inherently about the role of power (Stinchcombe, 1968), and always reflect political processes (Fiss, 2008).

(v) Resource Dependence

While resource dependence theory is set within the private sector, the issues of power, authority and leadership are applicable and more demanding in nonprofit organisations. As stated in Section 3.8.5, the three core ideas of resource dependency theory are that: (1) social context matters; (2) organisations have strategies to enhance their autonomy and pursue interests; and (3) power (not just rationality or efficiency) is important for understanding internal and external actions of nonprofit organisations.

The substantive theory focuses on values, power and politics. As Anheier (2005) argues, "values in nonprofit organisations makes them intrinsically political institutions. Values do not exist in isolation but are imprinted in organisational cultures, enacted through day-to-day activities, and evoked on special occasions and during decision-making. The link between values, power, and politics is critical, and values form the basis of power" (p. 160).

(vi) Managerial Hegemony

The substantive theory argues from the premise that the study of boards should not be separated from that of power in institutions and society, nor from studies of the composition and attributes of top management teams (Pettigrew, 1992). It places an emphasis on the role and power of the SMT and its relationships with the formal board of the nonprofit organisation. This view is best described by managerial hegemony theory, but subject to the context of various constraints and the latent power of stakeholders such as external board members (Cornforth and Chambers, 2010; Herman, 1981). From this perspective the board can be little more than a 'rubber stamp' for management's decisions, its function becomes essentially symbolic, giving legitimacy to managerial decisions. The largely voluntary and lay nature of board involvement in the

nonprofit sector may mean that board members' power is even more limited than in the private sector.

The substantive theory places managerial hegemony in the context of struggle between the board, populated by a majority of non-executives and the SMT under the leadership and control of the chief executive. That struggle is set in the arena defined by the neoliberal environment and represents a key dynamic of the board.

7.2.4 Summary

The substantive theory reflects aspects of all the main theories of corporate governance; and emphasises the issues of power and motivation, in the context of the regulated nonprofit sector. The main points are summarised below.

- All the theories rely, implicitly or explicitly, on the concept of context and power in relationships, which are situated nexus of norms, values, and taken-for-granted assumptions.
- Accountability to the regulator and government, and the absence of investing shareholders leads to a special application of agency theory.
- The political nature of nonprofit governance is a central consideration. The competing priorities of the political and ethical environments are reflected in stakeholder theory.
- The assumptions concerning motivations, while recognising the dominance of agency theory, emphasise the view of stewardship theory and identification of the board with the management and the client rather than with the state 'as principal'.

The substantive theory adds to these theories by identifying that the SMT as a key player in board relationships and governance, which is partially addressed only by managerial hegemony theory. The two models of nonprofit corporate governance, shown in section 6.7 above, indicate the close relationship between these the legally constituted board and SMT. They also

provide a basis for the SMT acting as a coherent group, in whatever formal structure the organisation adopts.

The substantive theory also emphasised the linkages between concept of challenge, decision making, and board dynamics. Challenge is a core function, and McDonagh and Limbdenstock, (2006) found support for the view of the necessity for group cohesion and positive group dynamics for high performing boards, relating most closely to the stewardship theory of boards. Agency theory calls for the non-executives to challenge the executive, however Abbott et al. (2008) found that although it was part of their remit, board members often avoided a challenging style in their relationships with officers, typically acting as 'critical friends' rather than as scrutineers. They concluded that this behaviour accords with the stewardship and stakeholder models of boards rather than agency or managerial hegemony theories.

7.3 Conclusion

The thesis concludes by setting out its contributions in terms of: methodology, through the application of a combination of ethnography and grounded theory; the theoretical outcomes of that methodology; and suggestions for further research.

7.3.1 Methodology

The thesis provides an understanding of board processes, group interactions, and decision making, which are based on direct access gained to the inner workings of the board. This access is regarded in the literature as being both difficult and necessary for gaining this understanding. This access allowed the application of an ethnographic approach to provide: direct insights into the interactions and operation of boards and senior management, as they occurred in the boardroom; along with the social interactions between members. The use of ethnography thereby provided the thick description of useful data for grounded theory analysis; and provided

the means to gain a greater definition of the internal structures of the corporate governance 'black box' in relation to its regulatory, political and ethical environments.

The research also used elite interviews to obtain a richer insight into governance, based on the experience, motivations, opinions, values, attitudes and feelings of chairs, non-executive directors and chief executives.

The thesis developed a connection between grounded theory and dialectical analysis; which equates the dialectical 'principal contradiction' with the grounded theory 'core category'. The dialectical contradictions are proposed to provide an engine for the development of nonprofit governance, which is then expressed in its various forms though path dependent mechanism in the nonprofit sub-sectors.

7.3.2 Theoretical Outcomes

The thesis contributed to the development of an understanding of the ways in which nonprofit boards operate within the general political, regulatory, and ethical environments in the UK. This contribution is described below under the headings of:

(i) the importance of ideology, politics, regulation, and ethics;

(ii) linkage to theories of corporate governance;

(iii) power;

(iv) interactions with the regulatory, political and ethical environments;

(v) the internal structure of the board and the importance of the SMT;

(vi) models of nonprofit governance; and

(vii) rationalities and emotions.

(i) The Importance of Ideology, Politics, Regulation, and Ethics

The substantive theory emphasises the importance of ideology and politics in the creation of the environment within which nonprofit corporate governance operates. The power of the

regulatory authorities, represents an overriding consideration for nonprofit boards. It also represents an internal contradiction, whereby the state and its regulatory authorities focus on efficiency and cost effectiveness, while the nonprofit sector focuses on delivering social purpose within the resources available and in conformity with the regulatory environment.

(ii) Linking to Theories of Corporate Governance

Regulatory environments affect boards and director's views and actions; and are dependent upon the prevailing political context and historical sources of corporate governance. The thesis integrates the behavioural view of nonprofit corporate governance to aspects of the other main governance theories.

Nonprofit corporate governance exists within a highly regulated environment; within which agency theory simultaneously places: the regulator as principal and the board as agent, when considering the quasi-market; and the board as principal and the SMT as agent when considering organisational matters. While accepting the dominance of agency theory; the substantive theory proposes that stewardship to be an appropriate theory to describe how they act as stewards in the delivery of social purpose: through the common cause which the trustee board has with the organisation, the sector, and those with a common world view. Both these approaches combine in the institutional governance view, which situates nonprofit governance specifically in power relationships between the government, regulator, board and executive. The thesis argues that the resource dependence view also places power relationships within the context of the regulatory environment, by focusing on values, power and politics. The dialectical approach then combines this with managerial hegemony, in the context of struggle between: the board, populated by a majority of non-executives; and the SMT under the leadership and control of the chief executive.

The thesis argues that nonprofit governance is placed within its historical, path-dependent context, in its development from its neoliberal roots, and its struggle with the public service ethos. This context provides the highly regulated environment within which the board exists. The research thereby identified and enlarged upon regulation from the point of view of the board as regulatee; and brought out this affected the governance of nonprofit organisations.

(iii) Power

The thesis argues for the importance of power in nonprofit governance. It proposes that the activities, governance structures and practices of the nonprofit organisations, are shaped by the power of the political, regularity and ethical environments through: social norms; conformity; accepted forms of legitimacy; political control of the state apparatus; regulatory frameworks; legal authority; and funding agencies. Power is exhibited: politically and economically by government; by regulators who seek to ensure that nonprofit providers deliver services in line with political priorities; in public expectations of morality; through the personal interactions of the board; the influence of the chief executive and SMT over the board; board control over the organisation; and the organisation's control over the services delivered to its clients.

(iv) Interaction with the Regulatory, Political and Ethical Environments

The thesis developed the idea that governance is significantly influenced by the culture, and historical practices of ethically driven nonprofit sub-sectors, and of the regulatory environment. The nonprofit regulatory environment operates through: public funding regimes; regulatory control or oversight; and the operation of quasi-markets implemented through NPM. The regulatory and wider value regime is argued to build a culture of conformity which provides a means of ensuring the delivery of government policy, compliance with regulation, and the acceptance of good corporate governance practice. The regulator also drives compliance through its enforcement mechanisms, such as inspections, which are aimed at strengthening the culture of 'conformity'.

The sector's response to regulation is ultimately built on the public view of the nonprofit ethos and values. These values include collaboration as opposed to competition is a core nonprofit belief (orthodoxy), which opposes the perceived individualism of neoliberalism.

(v) The Internal Structure of the Board and the Importance of the SMT

The thesis provided a model of the internal structure of the nonprofit board, and defined that boundary to include the SMT. The research provided a more fine-grained view of the internal structure of the 'black box', which was considered through the lens of group and individual motivations such as power and influence, identification and socialisation.

The identification of the legally constituted board and the SMT as major components of the board allowed the recognition that the interaction of these components is the key drivers of nonprofit governance. This provided an insight into what is a *de facto* dual board structure where, although the SMT does not have the legal authority of the board, it holds significant power on individual boards.

(vi) Models of Nonprofit Corporate Governance

The thesis proposed two models, or representations, of nonprofit corporate governance, as shown in Figures One and Two, as a conceptual framework. The first Figure framed the board 'black box' in terms of the ideological, cultural, and motivational contexts, or environment. It regards the board as a sub-system or 'black box' of the environment, which encompasses both the trustee board and senior management.

The second representation showed the interactions between the key elements of corporate governance. This allows the relationships within the 'black box' and interactions with the external environment to be theorised in terms of individual motivations, social groups, social purpose, ideology, power, and assumptions about rationality.

(vii) Rationalities and Emotions

The thesis linked the concepts of rationality, emotion, power, and corporate governance. The substantive theory proposes that nonprofit board actors use rationalities which are based on group emotions, achieving social purpose, and the public service ethos. The contradiction between this rationality and the economics-based rationality which underpins the neoliberal constructed environment of quasi-markets, is proposed to be an important driver in nonprofit governance.

The proposed inter-relationships between emotion, duty and rationality leads to the argument that moral duty, altruism and empathy are of importance to the nonprofit sector. Further, the close emotional association which is 'identification' with the client rather than with the 'owner' or regulator is a key affectation. It is closely associated with group membership; and is an intrinsic part of the socialisation process.

7.3.3 Areas for Further Research

The suggested areas for further research, which are discussed below, relate to: a comparison of corporate governance in the for-profit and nonprofit sectors; the application of the processes of challenge within the nonprofit culture; and a consideration of the SMT as a major player in governance.

(i) Comparative Corporate Governance

This research investigated corporate governance in the highly regulated UK nonprofit sector; and found that it was heavily influenced by the political, regulatory and ethical environments and by historical context.

In the context of an international study of comparative corporate governance, Howell (2016) noted that local cultures and traditions exist and create tensions in relation to established codes

and regulations. Individuals however, adopted rationales to act through self-interest (egoism) and / or the common interest (altruism), which underpinned the ways they as agents behave when dealing with moral dilemmas and regulation. While, as Letza (2015) notes the "standardisation of corporate governance …. across many different countries may … seem like a sound approach" (p.191), the context or environment seems to play an important role. Historical context also means that corporate governance involves a reflection of political socioeconomic struggles in a particular environment rather than considerations of efficiency and agency relations between stakeholders and boards (Fligstein and Choo, 2005).

Aguilera and Jackson (2010) argue that "institutions matter for corporate governance, but how they matter remains a hotly contested question. National systems of corporate governance differ in terms of their institutional arrangements, and those differences shape the possibilities for change or diffusion of practices from one country to another. Yet, most research stops short of spelling out what those key institutions might be and how they matter for corporate governance as a firm-level phenomenon" (p. 490).

There appears to be a parallel between the search to understand corporate governance through international comparisons of different institutions, cultures and legal regimes; and a comparison of corporate governance in different cultural and legal regimes which exist side by side in the for-profit and nonprofit sectors of the same country. Such a comparison could add value to the approach to comparative corporate governance. This approach could be implemented directly by comparative studies of the boards in these sectors.

(ii) Challenge

The ethnographic investigation of nonprofit governance supported the generally accepted view of the centrality of 'challenge' to corporate governance. This thesis sought to extend the common understanding of the concept of the under-researched concept challenge in terms of interactions. There is scope for further research into this key concept and its associated

practices to deepen this understanding. The research would determine its various frames, modes, and methods in support of the main theories of governance in both the for-profit and nonprofit sectors.

(iii) SMT

This thesis identified the importance to corporate governance of the senior management team acting as a group. However, the nonprofit SMT has not been the subject of a significant research in terms of either its operation as an important component of management, or its corporate governance interaction with the board. Such research could be undertaken through in-depth observation of a number of SMTs along with their relationships with the board.

Appendices

Appendix 1 Analysis of Data Sources

This appendix provides an analysis of the:

i) data sources in terms of the sectors from which it was obtained; and

ii) the background of the participating members of those boards.

1. Analysis of Data Sources

Data was collected through participatory observations of boards, board committees, *ad hoc* working groups of a total of 5 nonprofit organisations (1 social housing, 1 Local Authority (LA) controlled school, 1 Multi-Academy Trust and 2 charities), and sector practitioner meetings, as shown below.

Analysis of Data Sources

		Nonprofit sub-sector			
Types of meeting	**Number**	**Housing**	**LA controlled state education**	**MAT**	**Charity**
Board meetings	12	6	3	1	2
Board Committee meetings	10	7	3		
Ad hoc working groups	5	4			1
Practitioners' meetings	9	3	3	3	
Total	36	22	9	4	3

2. Backgrounds of the participating members

While the data was collected from four nonprofit sub-sectors, the members of those boards have experience in other nonprofit sub-sectors as well as in for-profit organisations. It is argued

that these board participants bring with them experiences and norms from those other organisations into their membership of the nonprofit boards considered.

Thus, the 54 non-executive and executive participants of the meetings analysed above have a breadth of personal skills, experience and backgrounds which constitute identities separate to those as participants in the participating organisations. These differing identities can be argued to influence the ways in which they enact governance. The analysis provided below and the commentary which follows it represents contextual information and does not seem to appropriate for statistical purposes.

Analysis of individual participants

Analysis Category	**Social Housing**	**LA controlled state education**	**MAT**	**Charity**	**Total**
Male	12	6	6	3	27
Female	5	7	7	8	27
Total	**17**	**13**	**13**	**11**	**54**
Of which are:					
a) Retired	7		3	1	11
b) Member of a profession	5		1	1	7
c) Hold positions in other organisations as					
Chair	4		5		9
CEO	5			1	6
Background in other nonprofit sub-sectors					
a) NHS					
Non-exec director	3				3
Exec director	1				1
Non-board		1	1	1	3
b) Local Government					
Member	4				4
Officer	1		1		2
c) Positions in the same nonprofit sub-sector					
Non-exec	2			1	3
Officer	2	1	2	4	9
d) Charities	2	1	1	2	6

Private Sector					
Director	1			2	3
Owner			1	3	4
Non-board position		1			

Membership of the 5 boards in aggregate had an equal representation of men and women. While all the organisations have a stated commitment to equality and diversity, there is no evidence of 'quotas' being applied. 20% of the people on the boards were retired, which is comparable the 18% of the UK population which according to the Office for National Statistics 2017, is over 65 ("the traditional retirement age"). There is however a marked difference between the social housing board and LA controlled education, which possibly reflects the differing skills and backgrounds required by these boards. The sample is designed to support a qualitative approach and is inappropriate for the purpose of drawing statistically based conclusions.

The analysis of individual participants does however indicate that there is a significant degree of 'cross membership' of boards. That is, board members in one nonprofit sub-sector are likely to be members of boards in either another nonprofit sub-sectors or in the for-profit sector.

Although the data collection did not include an NHS or Local Authorities, they were strongly represented by 13 board members on the boards in the sample. There was also a significant number of board members who held positions in the for-profit sector.

Appendix 2 Data Collection and Analysis

The first section of this appendix provides a description of the methods used in data collections. The second section provides a description and an example of the data and its analysis into open codes. In this analysis, elements of data of may comprise several discrete items, each of which produces a key issue. A single element may also generate several key issues and thus open codes.

The resulting full list of open codes, shown in Table 1, also shows the number of such data elements supporting each open code as an indication of the possible importance of that code.

1. Data Collection Method

Data was collected by participatory observation of board, committee, and working group meetings.

A formal agenda was produced by the executive for each meeting, and usually each item on the agenda was supported by a formal paper. These 'board papers' and agenda were circulated to the members about one week before the meeting. The meetings proceeded according to the agenda, with each item on the agenda supported by a board paper which was written and presented by an executive director, with the approval of the chief executive. The board then discussed the board paper, making whatever decisions it considered appropriate.

The board papers usually comprised, in total, around 200 pages, and meetings lasted for approximately two hours. The board may delegate work to its committees, which operate using the same processes as the main board.

The participatory observation process comprised: participation; contemporaneous note during meetings; and formal recording and review after the meeting. The review, with observations,

comments, key issues and open codes recorded against each item on the agenda; as described in the following section by way of example.

2. Description and an Example of the Data and its Analysis

This section presents an example of the data and its analysis from one board meeting. The meeting agenda is presented first, along with stated purpose or recommendation of each item on the agenda. This is followed in the next section by the analysis used for the data obtained at this sample meeting.

2.1 Agenda

An example of a meeting agenda, shown below, lists the agenda items, with an indication of the purpose or recommendation made in the paper supporting each item.

Item No.	Agenda Item	Purpose / Recommendations
1	Apologies and Welcome	
2	Declarations of interest	Board members declare whether they have any interest in any of the agenda items. Appropriate note or action is agreed for the relevant item.
3	Confidential Session – board members only	For board members to discuss any relevant confidential matter without the presence of staff.
4	Minutes of the previous board meeting	For approval
5	Matters arising from the previous meeting	To inform the board of the actions taken as the result of the previous meeting
6	Chief Executive's Report	To highlight items on the board agenda of particular significance, and to raise other items of interest to members or that need board approval which are not covered elsewhere.
7	Welfare Reform update	Members are invited to discuss this paper and consider the potential impact on the organisation.

8	Development strategy outturn	For the board to note.
9	Financial assumptions for new build	The board is requested to approve the assumptions.
10	HCA programme	The board is asked to approve the membership of a task and finish group, and to delegate that group to prepare a bid.
11	Voluntary right to buy	For the board to note the contents of the report and that further updates will be provided.
12	Management accounts	For the board to note.
13	Regulatory self-assessment and update	The board is asked to approve the self-assessment and to note the remainder of the report.
14	Treasury report	For the board to note.
15	NHF Governance and Standards Codes Compliance	The board is asked to discuss the compliance updates and actions.
16	Customer involvement and scrutiny: the way forward	For the board to note the approach to customer engagement and to approve the changes to scrutiny and co-regulation, to strengthen compliance with HCA regulation.
17	IDA Project plan and action plan	For the board to discuss the project and action plans.
18	Data return for the HCA	For the board to note.
19	Statistical data return for the HCA	For the board to note.
20	Nominations committee minutes	For the board to note.
21	Audit committee minutes	For the board to note.
22	Subsidiary board minutes	For the board to note.

2.2 Analysis of the Data

Notes were taken during the meeting and analysed afterwards using a standard template shown. This template comprised four columns.

- The first column reflects the agenda item number above.
- The second column ‘Observation’ records an observation of the discussion of that agenda item.
- The third column ‘Comments’ highlights the points arising from the board paper and the board discussion.
- The fourth column ‘Key Issues’ identifies potential core categories arising from the consideration of the item.
- The fifth column ‘Open Coding’ codes the key issues against codes, which are summarised in Table 1

The analysis of this meeting is presented below in order to illustrate the coding procedure.

Item	Observation (by Agenda Item)	Comment	Key Issues	Open Code
3	**(Confidential) Board member only session** The chair invited the chief executive to brief the board on the 4 items shown below. (i) Large overspend in an operational area This briefing pre-empted the management accounts paper later on the agenda. The board were asked not to raise questions on this item in open session since the chief executive stated that she had launched a formal investigation.	The confidential session comprising updates by the chief executive was clearly agreed by the chair	1. Pre-meeting management to ensure smooth running and no public questioning of the executives by the board.	OC 11
	(ii) The impending retirement of an executive was discussed		2. Succession Planning / risks of losing key executives	OC 12
	(iii) Merger opportunities	All members support the opportunity.	3. Chief executive Networks	OC 13
		Delegated to the Nominations Committee.	4. Trust by board members in the Nominations Committee.	OC 14
	(iv) Update on the Board chair recruitment process		5. Uninterest in recruitment of key board position by board members who are the sole shareholders.	OC 15
	(v) Update of settlement of Employment Tribunal	Update on the administrative process and sums involved.	6. Board oversight of chief executive	OC 16
6	**Chief Executive's Report** Quite a lengthy report containing, amongst other things, - formal documentation concerning the governance reorganisation	The formal documentation and changes to the lending	7. The formal approach of the board to the approval of (important) technical documents. This is based almost entirely on external/officer endorsement. That is it is a ratification process.	OC 17 OC 18

	- Lending agreement revision required as a result of the reorganisation. - A statement on Modern Slavery, which is legally required to disclosed - Information on a proposed housing development - Risk map update	agreement to the value of £77m were approved 'on the nod'. A few members made comments designed to improve the draft modern slavery statement, which the comments evidenced was not well written. A board member appointed by the local council commented on the development A board member who is a pensions specialist commented on the reduction of the pensions risk rating.	8. Executive credibility. The practice of putting poorly drafted statements (Modern Slavery Statement) to the board potentially damages executive credibility. 9. Papers presented to the board have the authority of the chief executive, (who should ensure that an adequate review of such takes place). 10. The minimal impact of individual board member expertise and external position on the working of the board. Especially if these areas of expertise and knowledge are not shared by other members, or the individuals are 'outgroup' members.	OC 19 OC 20
7	**Welfare Reform Update** This was presented as a background paper because "for the IDA it is necessary to demonstrate that we are aware" of the relevant legislative issues. The board had only one minor question on the paper with no board discussion.	The regulatory framework of the HCA in terms of IDA (in depth assessment) of boards is making organisations: a) produce documentation to evidence our knowledge and awareness – which we may or may not fully have; and b) use this as a vehicle for increasing individual knowledge in reality.	11. Regulator driving compliance through their enforcement mechanisms – strengthening the culture of 'conformity'.	OC 5 OC 21
8	**Development Strategy Outturn** One minute of board time spent on the outturn report on "Development [which] is a high risk activity … closely monitored by both senior management and board", as stated in the risk	The time spent by the board is not necessarily a good indicator of the importance that it gives to the item.	12. Active monitoring role of the board 13. "Monitor in Being" (as in the naval concept of fleet in being as a deterrent). The existence of the potential for board scrutiny can be sufficient	OC 22 OC 23

	management section of the paper. The board did not do other than pass over the paper.	Does the board have to ask questions of a paper to demonstrate its monitoring and concern?	to ensure that the executive monitor and control in detail. 14. Board demonstration to the executive of its monitoring role	OC 22
9	**Financial Assumptions for New Builds** One board member queried a point in the paper using his specific technical treasury knowledge which produced a useful response from the FD. This related to the fact that the paper was concerned with the criteria for ranking individual projects and did not provide any authority to proceed on any specific development**.**	The board must approve technical proposals based on the board paper, executive support and member's own skills and experience.	15 Board member specific technical expertise producing challenge at the board meeting. 16 Reliance of board members on the specific expertise of other members when querying technical papers. 17 Effectiveness of board input on technical matters.	OC 20 OC 24 OC 25
10	**HCA Programme 2016-2021** This paper concerned the process for bidding for development money from the HCA national capital programme 2016-2021. This bid to be prepared by a Task and Finish Group appointed by the board. The paper asked for membership of this group to be determined by the board. The bid will effective set the development programme and internal subsidy for each house to be built for the next 5 years. It is thus an important decision.	The chair called for volunteers from board members and two new board members offered and were accepted by the chair. The chair then asked if some more established members would volunteer. I did but no one else. The Task and Finish will then meet twice and comprise Development Director, Finance Director and three board members. The board will ratify the decision of the task and finish group.	18 Delegation of detailed board tasks to committees and ad hoc groups 19 Effective (although not formal) delegation of power to sub-groups.	OC 14 OC 26 OC 27
11	**Voluntary Right to Buy (VRTB)** The report was an update – similar to the paper on Welfare Reform above	Keeping the board informed of the political climate and legislation.	20 Evidence for the regulator of our good governance	OC 5
12	**Management Accounts**	The previously agreed format of showing last year comparatives	21 Reliance by the board on board members with financial skills to query the accounts.	OC 6 OC 24

	Standard management accounts paper, albeit for the final month of the year. There were no questions on this paper (see Chief executive's confidential session briefing above).	had not been applied in this set of accounts. The prior year comparatives are important data, which the FD previously resisted passively for a long time before implementing. No one picked up on it	22 Low board challenge (in face of apparently good financial results) 23 Resistance of the executive to change requested by board members or the board. 24 Professional pride of the executive causing resistance to change requested by board members / board.	OC 28 OC 29 OC 30 OC 31
13/15	**Regulatory Self-Assessment and Update And NHF Governance Standards Code Compliance** This report had previously been considered at the Governance Committee. Its purpose is to provide assurance to the board that the organisation is fully compliant with the HCA's regulations There were no questions on the substance by the board	The report did not make an explicit summary statement which said that we (or do not) comply. Instead it was a detailed schedule discussed at committee, and slightly amended as a result. On questioning, we were assured that it meant that we were compliant. I asked that in future it should make an explicit statement	25 Reliance on and trust in a board committee. 26 Focus on the evidence of regulatory compliance as required by the HCA.	OC 14 OC 5
16	**Customer Involvement & Scrutiny – The Way Forward** At 19 minutes, this item received the broadest attention and interaction of board members. Obtaining tenant engagement is a sector wide problem, and a previous strategy development session we agreed that as an organisation we needed to understand and empathise with our tenant; and continuing to attempt to do this through the traditional tenant participation processes was futile.	Reflects to board's focus on its social purpose and its tenants. The board paper stated that the purpose was "to strengthen compliance with the HCA regulation" However the board was unanimous in its view that we do it because we want to improve tenant involvement and	27 Focus on social purpose 28 Accountability of the board to the Regulator not to its tenants 29 Tenant involvement 30 Historical context of tenant democracy carried forward to the current housing sector orthodoxy. 31 Board have emotional commitment to the concept of tenant involvement	OC 32 OC 33 OC 34 OC 35 OC 284

	The paper suggested a new structure for customer [tenant] involvement and participation. The general view was that we are happy to try it. . . . but remembering that participating tenants are not 'tenant representatives'. They are there just to provide a tenant view to support board decision making.	engagement, not to satisfy a regulator. One board member specifically focuses on tenant engagement / tenant scrutiny of the board; acting as a tenant advocate. (He is not a tenant himself).		
17	**In Depth Assessment (IDA) project Plan and Action Plan** The paper was produced as the result of a discussion at the recent board away day on the "mock IDA" carried out by external consultants. The purpose is to be prepared for the IDA when the organisation receives notification of the inspection	Detailed project timetable for the collation of documents and last minute preparation for the relevant board members. So, when the regulatory review comes round we can present the best picture of governance in the organisation.	32 Board focus on the importance of perceived regulatory compliance enforced through inspection 33 Preparation for regulatory inspection 34 Importance of governance grades, and the threat of public downgrading 35 Threat of publically published downgrades as a motivation for executive and board compliance action. 36 Form of compliance (results of inspection) not necessarily linked to actual performance, ie effectiveness of inspection in determining the true position	OC 36 OC 36 OC 37 OC 38 OC 39
	General Remarks on Participation	There was a good level of participation by board members; particularly on the topic of customer involvement. Generally, members all made a contribution, with the executives participating only to support their papers.	37 Levels of member involvement at board	OC 285

Tables

Table 1 Open Codes

Table 1 lists the open codes which were generated during data collection and analysis, as described in Sections 6.1 and 6.2.

OC	Open Codes	Number of Data Points
1	Organisation norms of CEO attendance at Audit Committee	2
2	Respect expected by the committee chairman expected of the executive	2
3	Executive respect for the audit committee	2
4	The Regulator and the regulatory regime	14
5	Regulatory compliance	15
6	Transmission of regulatory compliance by consultants and auditors and other outside bodies	4
7	Reliance on external expert member opinion and member critical judgement	3
8	Politeness between board members and chief executives	1
9	Committee engagement with reasonably detailed and familiar reports	1
10	Existence of 'ingroup' and 'outgroup' in the board and SMT	4
11	Pre-meeting management	2
12	Executive succession plans	1
13	Chief executive networks	1
14	Reliance on and trust by board members in board committees	10
15	Uninterest in recruitment of key board position by board members who are the sole shareholders.	1
16	Board oversight of chief executive	1
17	Board approval of (important) technical documents	6
18	Executive credibility	2
19	Papers presented to the board have the authority of the chief executive	4
20	The impact of individual board member expertise	3
21	Regulator driving compliance through their enforcement mechanisms (including financial regimes) – strengthening the culture of 'conformity'	10
22	Active monitoring role of the board	3
23	"Monitor in Being" (as in the naval concept of fleet in being as a deterrent).	1
24	Reliance of board members on the specific expertise of other members when querying technical papers	4
25	Effectiveness of board input on technical matters	1
26	Delegation of detailed board tasks to committees and ad hoc groups	7
27	Effective (although not formal) delegation of power to sub-groups	3

28	Reliance by the board on board members with financial skills to query the accounts	2
29	Low board challenge (in face of apparently good financial results)	3
30	Resistance of the executive to change requested by board members or the board.	2
31	Professional pride of the executive causing resistance to change requested by board members / board	1
32	Focus on social purpose	16
33	Accountability of the board to the term not to its tenants or clients	3
34	Tenant involvement	2
35	Current housing and education sectors orthodoxy	7
36	Regulatory inspection (IDA)	7
37	Importance of governance grades, and the threat of public downgrading	3
38	Threat of publically published downgrades as a motivation for executive and board compliance action.	4
39	Form of compliance (results of inspection) not necessarily linked to actual performance, ie effectiveness of inspection in determining the true position	1
40	Importance of regulatory grades to executives and members	4
41	Member to member socialising outside meetings	1
42	Opportunity for staff achievements to be showcased and to receive board applause	1
43	Formal chair recruitment processes	3
44	Board member lack of engagement in the process of chair recruitment	1
45	Key role played by the Chief Executive (the only executive who is a full board member) in the chair recruitment process	1
46	Chairing skills	2
47	Altruistic values driving actions of chair and non-executives	2
48	Structure of the board affects executive behaviours (ie numbers of executives and non-executives)	2
49	Meanings and forms of ‘challenge’, including its formalises structure	12
50	Senior management team decision making processes.	5
51	Board expectations of the chief executive in allowing papers to come to the board	5
51a	Expert input to the board by executives	2
52	Nature of debate at the board	4
53	Trust in executive colleagues and information.	5
54	Understanding of important issues and ‘grip’ at board level of the organisation	3
55	Responsibility of chair and board for organisational failure	1
56	Personal interactions of board and executives	1
57	Formal board decision making	5
58	Ratification by the board	5
59	Board level conflict (failure to obtain consensus)	4
60	Board roles of directors dependent upon formal structure (number of non-executives and executives)	3
61	Chair / non-executive roles: challenge and support	8
62	Roles of the chairman	2
63	Organisational values	2

64	Commitment to the receivers of the organisation's services (eg housing, education, and charity this instance) – social purpose	11
65	Tension between 'social purpose' and 'profit'	3
66	Antagonism of Social Housing sector professionals to private sector landlords specifically (private sector generally)	4
67	Core responsibilities of the board: compliance, risk management, framework of internal control. (Established in statute in the public sector)	11
68	Relationships between the board and its committees and subsidiaries	4
69	Relationship between the board and CEO	1
70	Appraisals of board members including chair, CEO and other members	4
71	Good relations between the board and CEO necessary for good governance and delivery of results.	1
72	Relationship between governance and results	1
73	Ambassadorial role of the chair	1
74	Board cohesion	2
75	Concept of [the chair and board] 'critical friend' of the executive	3
76	Respectfulness and challenge	58
77	Chair meeting with board colleagues (building personal relationships)	1
78	Board meeting agenda management	3
79	Leadership role of NED and the board	1
80	Human factors in board processes	2
81	Stakeholder relationships and engagement	3
82	Staff engagement with the board	11
83	Motivations of the executive in proposing the use of task and finish groups	3
84	Task and finish groups as extensions of the senior executive group	2
85	Meeting protocols	2
86	Power of the chief executive over executive directors	2
87	Creation and discussion of proposals at the SMT	4
88	Social ties between group members	1
89	Political (both world view and party) leanings of the housing sector affecting decisions.	10
90	The importance of social mission, which to the executive, means –in housing- giving a good product and service to existing and future tenants, and in education the children and charity the service users	5
91	Interpretation and emphasis of the social mission, which for non-executives means providing as much housing as possible to help alleviate the housing crisis, while giving reasonable (comparable to the private sector developer) quality to new tenants	4
92	Tension between sector orthodoxy for executives (brought up in the sector) contrasting with experience of other public sectors of the non-executives	2
93	Dynamic of executive – non-executive interaction at board, committees and groups.	5
94	Executives acting as a cohesive group at meetings	1
95	Non-executives acting as (a less prepared / cohesive) group.	1
96	Dominant position of the Head (CEO) in the meeting	1
97	Meeting / organisation / sector culture	8
98	Contribution and engagement of the governors at meetings	2
99	Chair 'recruitment' (or election) and personal motivation of the chair	3
100	Style of meeting minutes	4
101	Governors responsibilities	1

102	Identification of the board with the organisation	1
103	Meeting management by the chief executive	2
104	Performance reporting in accordance with the regulatory regime: appropriateness, and use as 'explaining away' reported underperformance	2
105	Board challenge on poor results and executive resistance / response	2
106	Low level of board member engagement	2
107	Member time commitments	1
108	Executive error and omission being forgiven / unchallenged	5
109	Chair's Meeting planning and management (and member fatigue)	2
110	Board succession planning	1
111	Defensiveness of members and chair under challenge by other members	2
112	Auditors providing assurance to the non-executives on the executive in private session	1
113	The importance of the relationships between auditors and the executives, for both parties in particular the way in which this results in the assurances to members.	1
114	The non-executive questioning straying (a little) into operational matters and wider issues	3
115	Considerations of the wider political environment, as key driver for non-profit sector	9
116	Assurance provided by executives to committee members on detail factual basis	3
117	Board culture: acceptance by the executive team that 'it is safe' to present drafts to the committee for discussion and revision.	1
118	Acceptance by the committee that drafts can be presented for discussion and revision	1
119	Level of technical, regulatory and legal knowledge expected of members. Or at least evidence for the regulator that members have an appreciation of the regulatory environment	7
120	The main audience of the statutory accounts and strategy documents is the regulator	3
123	NHS Executives contributing to board discussion only in their own areas – question of whether they act as full board members	1
124	No executive to executive challenge	1
125	Where executives attend the board there is no expectation that they will contribute other than through their papers	1
127	Power of the formally appointed board against the SMT	2
128	Reasons for Board membership	2
129	Professional skills and experience required of trustees, rather than as representatives of clientele	1
130	Board as a supportive community	3
131	Non-executive selection not dependent on specific sector experience	1
132	The confidential section of board meetings is a permanent feature, and its existence is accepted by the executives.	1
133	The non-executives appear to like the confidential section to allow them the opportunity to speak frankly about matters which would possibly 'upset' or concern the executive.	1
134	The chief executive seeks always to 'protect' those areas of executive responsibility from 'interference' by the board.	1

135	The definition of operational (ie that which is the direct responsibility of the chief executive), and governance (ie the areas of legitimate board authority) is not always clear; and can be a potential source of friction between the executive and the board.	2
136	Establishing a rapport with merging parties at board level	1
137	The process of transmission of authority to a new chair	1
138	Executives passing on good news, (in the sense of mitigating previous bad news), to publicise their achievements to seek favour from the board	1
139	Members do not always review minutes closely to ensure that the executive record decisions and debate completely and accurately.	1
140	The purpose and role of minutes from the member's point of view	1
141	The great importance of the political environment for the quasi-public sector	8
142	The board places great importance on setting the organisation's risk appetite. This will set the tone for all strategy and operations in the organisation	4
143	The background and expertise of the board members affect their attitude to risk appetite. The organisation's risk appetite is thus influenced by the board members and the composition of the board	3
144	Tension between a commercial subsidiary the holding company, which is a non profit	2
145	Management of board processes to sound out opinion of the board, without putting up a proposal which may be rejected	2
146	Decision making is a process which cycles round the board and SMT using various rationales	5
147	Management of the board by the executive through engagement with the decision making process which is led at each stage by the executive	2
148	The board requests the use of external consultants and experts for information for decision making	1
149	Government policy drives the housing product to be offered by housing associations	3
150	Tension between the orthodoxy and ethos of the housing associations and the school sector and the political direction of government policy.	8
151	Standard annual monitoring reports produced for the board by the executive for its formal approval of the 'Annual Equality Statement'. Passive monitoring	2
152	The meeting was structured around formal papers prepared by the executive director	3
153	Full information was not provided beforehand to members on the decision to be taken. This was acknowledged to be a shortcoming	1
154	Task & Finish groups reflect the formal power structure of the authority of non-executive board members and the power of the executive by virtue of their knowledge and cohesiveness	3
155	The chief executive, although a board member acted as an executive rather than as a board member on Task & Finish group	2
156	The National Housing Federation is an example of regulated organisations having their 'trade bodies' which have the functions such as: representing their collective views to the regulator and government; and setting and propagating good practice and information through the sector	5
157	The regulator is seeking to create a quasi-market for funds, where each bidder is independent of each other. However Regulated organisations seek to	5

	circumvent this underlying assumption by obtaining information (informally) from each other when bidding in national programmes.	
158	Bids for capital funds for development are based principally its social purpose, they are grounded on a knowledge of finances and risk	2
159	Organisations form consortia to reduce the administrative interface burden with the HCA	1
160	Organisations form consortia to reduce the administrative interface burden with the HCA as funder	1
161	Non-executive challenge forcing the executive to provide evidence for their views	2
162	Decisions based on financial projections recognise the underlying assumptions and future uncertainties. The main issues are however concerned with how to manage that risk in the pursuit of social purpose.	4
163	Government policy is the key driver in the sector. This means that organisational risk is greater in a regulated sector because of the effect of major and/or policy changes driven by 'ideology' not directly by economics.	10
164	The executive appears to view the Task and Finish group as a means of obtaining board approval of the executive's proposals	2
165	Government sets its policies based on its ideological stance and mandate which has been obtained through the democratic process	2
166	The educational establishment has different political views generally to a centre right government, but has to implement policies which it disagrees with	5
167	The government must deliver its policies through professional groups which do not agree with it.	2
168	Professional groups are law abiding and will implement the law	2
169	Funding mechanisms are a means of driving the implementation of policy	1
170	Government policy implementation promoted through 'marketing' its policy ideas to those who must implement them	3
171	Depoliticising the academisation decision by showing that it has cross party support	1
172	Forcing acceptance by dismantling the alterative policy an process support structures	1
173	Seeking positive support for the policy from those who will implement it, by demonstrating its strengths on a professional basis	3
174	Governance improved by creating a larger 'mass' for governors. That is effective governance requires a critical organisational or group mass in order to be effective	1
175	Focus on the challenge role of governors through consistently following up on priorities and promises of the executive	1
176	Transparency and openness in discussing significant issues, the quality of engagement and responding to feedback	2
177	Essential to empower (subsidiary) heads to help in shaping (group) strategic priorities	1
178	Sector guidance on governance produced by independent organisation with the aim of improving the effectiveness of governance to the benefit of the social purpose	3
179	The National Governors Association (NGA) and department of Education guidance and training based on these and similar set the culture and values for governance in the state education sector	3

180	The culture of corporate governance in the non-profit sector (education and housing) provides a means of ensuring the delivery of government policy (mind regulation) and compliance.	5
181	The structure of governing bodies is set out in statute / regulation. It is therefore determined politically, for the purpose of directing effective behaviour	2
182	The motivations to become a governor are varied, and could be related to the type of governor	1
183	Where is no remuneration, motivation to be a non-executive is probably intrinsic, although the precise nature of this motivation is an open question.	4
184	The government department uses accepted corporate governance best practice and applies that to the sector	2
185	Checking compliance to departmental guidance, in the education public sector, is part of the regulatory regime (OFSTED)	1
186	Challenging is regarded by governors as a challenging task	1
187	Pluralistic ignorance is recognised as something which can both diminish challenge and affect board creativity	1
188	Mix of personalities on a board affects its dynamic	1
189	Guidance on corporate governance is based on principally on agency theory	1
190	Accountability and transparency are important in the public sector	1
191	The purpose of the board is set out in easy to understand terms, however achieving them requires skill and experience, which many governors feel ill equipped for.	2
192	Government advice on the style of challenge to be applied by governors	1
193	Mutual respect, trust, openness and honesty set as the preferred culture	3
194	Support for the executive is viewed as being very important. Using the non-execs skills and experience, when this is lacking in the exec director	3
195	Governors of schools may not be experienced in holding effective meetings and need to be advised in guidance how to do so	1
196	Orthodoxy of 'tenant involvement', which the social housing sector generally accepts as problematic in practice	1
197	Antipathy of those who work in the social housing sector towards the private rented sector (PRS)	1
198	Independent appraisal required for the chairman – consultants retained since there are no other externals to carry out that process	1
199	Formulaic presentations of papers and this presentation accepted as a 'ritual' by the board	1
200	Systematic cyclical review of governance documents is carried out by the company secretary, as best practice and for regulatory evidence	2
201	The company secretary should ask the audit and risk committee to review its own tor (which it has done previously)	1
202	Non-executive would like the governance documents to refer to customers (ie indirectly to the social purpose of the organisation)	1
203	Non-executive detailed review of documents – expected to be carried out before the meeting	1
204	Nonprofits are sensitive to the attention of stakeholders (Pres and public) in awarding its members pay increases.	1
205	Pay awards linked to those of the staff means that 'we as board members do not seek any advantage for ourselves' compared to the staff.	1

206	(Non-executive) Board members serve on boards for reasons not associated with direct remuneration	2
207	All directors are equally responsible for the organisation regardless of their appointment route, which is sometimes not always clear to members	1
208	The board acts to maintain the skills of its members in support of its role as an effective board. This is also evidence of good governance for the regulator.	4
209	Strategic plan can be substantially created by the executive, with board ratification	3
210	Regulatory requirements driving boards and organisations to implement 'accepted good practice'	1
211	Rationalisation of (minor) failures to achieve strategic ambitions by those who created or ratified the strategy	1
212	Difficulties for nonprofits in moving into commercial areas because differences in sector cultures	1
213	There is a significant 'cross fertilisation' of non-executives between NHS, and Housing who bring with them, knowledge of the connections between them and a desire to connect them. The practicalities of funding, policy and regulation make this too difficult in practice to implement	1
214	Support services are provided as part of the 'wider social purpose' of the organisation, which is a point of view agreed by the board members and the executive.	5
215	Executive engagement with the board horizon scanning, intended to cement the board's view on the social purpose of support services.	2
216	Strategic decisions are made on the basis of wider social purpose	5
217	The board recruits its own members who are either in agreement with, or become socialised to, this general 'wider social purpose'. There must also be a fit between personalities.	3
218	Use of internal audit to provide assurance to the audit committee and then the board on legal compliance	1
219	Meeting disciplines ensure focus on important items (especially when time is limited).	1
220	Business concluded quickly questions why meetings do not always do this. People like to demonstrate their engagement by speaking – although not necessarily adding value	1
221	The ethical concept of moral obligation [to provide decent housing] stated by the minister, which resonated to meeting of senior housing professionals; and moral obligation in education similarly resonated with school governors and the charity sector	5
222	Ethical concepts of Concepts of 'right and just' used by the housing minister which resonated to meeting of senior social housing professionals, although it is not their responsibility	1
223	Executives may seek to reserve decisions for themselves at the critical time so presenting the board with a fait accomplice when the formal decision has to be made.	1
224	'Regulatory capture' is a possible interpretation of the HCA closeness to the housing sector. Although it could be seen as just a way to obtain an emotional closeness to the regulator	1
225	The regulator acts to implement government policy	1
226	Government wants the social housing sector to be more efficient and introduces various mechanisms to promote this.	2

227	Dilemma of the quasi-market: desire to control more directly against structural mechanisms against this	1
228	Boards with greater autonomy and professionalism lessen government ability to directly control. Professionalisation of boards is an attempt to exert indirect (cultural) control. This is lessened by the felt 'moral obligation' of those professionals to sector 'clients'	3
229	Collaboration as a core belief (orthodoxy) opposing neoliberalism	1
230	The collective view rather than that of competing organisations is the sector orthodoxy	2
231	Voluntarism cherished as a principle and embedded in the sector culture	1
232	Ubuntu concept combines the collective and the social purpose views	1
233	Educational professionals feel 'accountable' to their colleagues for the quality of their performance	1
234	The executive research and propose, and must do so with sufficient clarity to obtain agreement from the board committee.	1
235	The pay decision parameters have been put as policy which makes decisions relatively easy	1
236	Reliance by non-executives on the integrity of executives	1
237	Reliance by non-executives on the integrity of executives	1
238	The principle of fairness to staff	1
239	The Board wishes to improve its own administrative efficiency	1
240	Recognition of the non-executives experience, skill and particularly effort seems to be an important motivating factor	1
241	Link between executives serving in the non-profit sectors and their motivations and beliefs	1
242	The role of senior independent director is accepted practice in the private sector but not implemented widely in the non-profit board.	1
243	Professional views of 'Company Secretary' can provide an external, organisationally and psychologically based view of the workings of a voluntary management committee and its effect on an organisation	1
244	Culture of a board changes over time	1
245	The culture of a board can be immediately obvious to the outside. This will affect the outsider's attitude to the board	1
246	The culture and its change appear to have little effect on the performance of the organisation	1
247	Stereotyping of members as 'nice people' rather than by their views.	1
248	Adverse effect that intergroup rivalries have on the enthusiasm and effectiveness of organisations	1
249	Self-perpetuating nature of board culture	1
250	The ingroup erects barriers to entry to those who do not conform to their culture	1
251	The ingroup erects barriers to entry to those who do not conform to their culture	1
252	Strength through having a diversity membership and an 'open culture'	1
253	The importance of collective memory	1
254	Self-interest in terms of power and prestige is an important factor in erecting barriers to new ideas and people	1
255	The potential for board challenge ensures executive produce papers which pass that challenge	1

256	SMT members generate board reports which will go to the board, committees and working groups, and these are 'tested' at SMT. The chief executive has the last say in all these.	1
257	The role and influence of the SMT in the process by which the board decides upon strategy and policy	1
258	The personal ethos of non-executives and executives centred upon a sense of moral duty to provide the best possible service to all the people with the medical condition served by the charity and those for whom the organisation exists	1
259	The charity is a contractor, providing services commissioned by (local) government in discharge of their statutory duties. That it is the duty of the government to provide certain services	1
260	Politically and budgetary driven changes to Government funding rules and amounts present key issue for providers	1
261	Provider organisation driven by social purpose and by moral duty to provide a good service to recipients	3
262	Financial pressures driving growth increase the risks to the organisation	1
263	Board operates on the basis of trust and reliance on the executives	1
264	Non-executive challenge moderated by 'charitability' to executives	1
265	Boards rely on a number of sources for their assurance on the finances: audit; reports coming out of the department, and the credibility of the Finance Director and Chief executive	1
266	Board committee understanding of issues dependent on information from the executive in the first instance, interpreted by the professional background of it its members.	1
267	The regulator sets the intellectual framework for governance (based on accepted good practice	1
268	The political environment affects the way that the social purpose is delivered, but not the social purpose itself	2
269	External perceptions of the sector affect or at least influence the political environment	1
270	External political emphasis on 'efficiency' is a key driver to activity but does not override social purpose	1
271	External political emphasis on 'efficiency' is a key driver to activity but does not override social purpose	1
272	Quasi-public sector board meetings held in private as in the forprofit sector, or held in public as in the public sector	1
273	Board members and the executive are personally concerned with helping the homeless and other disadvantaged groups	1
274	Building and maintaining relationships with external stakeholders in order to deliver social purpose	1
275	Board focus on potential future challenges	1
276	Board members not expected to know operational detail	1
277	Non-executive training and education and socialisation	1
278	Attempt to 'quantify' social impact in rational choice theory terms is impractical	1
279	Wider social purpose encompasses clashing social purposes (differing interests of client groups)	1
280	Non-executive decision making on the basis of weighing clashing social purposes	1

281	Path dependency: a new organisation evolving out the current state under the impetus of legislation and the specific combination of existing structures and founding personalities.	1
282	Background of trustees influences the way that they govern	1
283	The provision of housing is viewed by certain academics and activists the sector as a duty of government and as a right of eligible recipients	1
284	Emotion as a part of board process	5
285	Levels of involvement of board members at board, board committee, *ad-hoc* groups, and external events	6

Table 2 Concepts and Categories

Table 2 summarises and groups together the concepts which have been developed through open coding from the data. The concepts are grouped under their respective headings as discussed in Section 6.3. The number of separate open codes supporting each concept is shown under the heading 'Number of Open Codes'. The relationship between each concept and sub-category is shown in the third column, headed: 'Open category / sub-category reference'. Each sub-category referred to is discussed in Section 6.4 above.

Concept Grouping / Concept	Number of open codes	Open category / sub-category reference
6.3.1 Environment		
(i) Political and Regularity Issues		
1. Political environment, government funding regimes, political legitimacy and government policy The general political environment is a key driver for the sector. However, it affects the way that the social purpose is delivered, but not the social purpose itself Political focus on efficiency	27	1 (i), 1 (ii), 5 (i)
2. The regulatory environment, regulation, ensuring regulatory compliance and the responses of the regulated. (Differing regimes in different sectors). The regulatory and wider value regime builds a cultural acceptance of good corporate governance practice (ultimately from the private sector) Regulatory environment ultimately built on public view of the non-profit ethos and values.	36	1 (i), 1 (ii)
3. World view / public sector ethos / public sector orthodoxy	13	1 (i), 1 (ii), 1 (iv), 2 (i)
4. Nonprofits which are essentially providers commissioned directly or indirectly by government to deliver the latter's statutory duties and policies	6	1 (i), 5 (i)
5. External perceptions and expectations of the non-profit sector affect the political environment. The sector also seeks to influence government and public to change these perceptions	3	1 (i), 5 (i)
(ii) Social Purpose, Values and Moral Duty		
6. Social Purpose (and wider social purpose) of the organisation. However wider social purpose encompasses clashing social purposes (differing interests of client groups)	23	1(i), 1 (ii), 1 (iii), 1 (iv), 2 (ii), 2 (v), 4 (ii), 5 (i)

7. Values and culture (including antipathy towards neoliberalism, the private sector, mutual support and charitableness): the sector, the organisation, and the board. This includes positively valuing the concept of voluntarism. Self- perpetuating – but there are changes in culture over time. Sector norms for organisational, SMT and board norms	39	1 (i), 1(iii), 1 (iv), 2 (ii), 5 (iii)
(iii) ***Interactions Between the Political / Regularity Regimes and Nonprofit Sector***		
8. Quasi markets and real markets	6	1(i), 5 (i)
9. Risk: attitudes of providers and high risk associated with reliance of government policy and the requirement to demonstrate 'value for money'	13	4 (iii), 5 (i)
10. Nonprofit rationality is different to rational choice theory	6	1 (iii)
11. Path dependency is a key consideration in the creation and operation of the boards of organisations	3	1 (i), 3 (i), 4 (i)
12. Introduction of 'for-profit sector' views and processes	2	1 (ii), 2 (v)
13. Guidance on governance and Independent sector bodies: 'trade bodies' and those providing guidance and support	8	1 (i), 1 (ii), 1 (iii)
14. Implementation of policy by professional groups, members of the professions and the SMT in accordance with sector norms and tradition	7	1 (i), 2 (ii)
6.3.2 Board Structures and Processes		
(i) Structure and Action		
1. Board structure affects board behaviours	5	4 (i), 5 (ii)
2. Chairman roles and responsibilities	8	3 (i), 4 (i), 5 (ii)
3. The formal board, committees and task and finish groups: and responsibilities. The de facto dual board. Structure set by regulation or statute Board committees chaired by non-executives	26	3 (i), 3 (ii), 4 (i), 4 (ii), 5 (ii)
(ii) Trust		
4. Meetings: protocols, formality, rituals, management and conduct (symbolic leadership) Board meetings mirror the intended sector culture. Board meetings in quasi-public sector are private as in the private sector which it mirrors; and as theatre as in the public for public legitimacy	32	2 (iv), 4 (i)
5. Boards operate on the basis of formal papers presented to it by the executive: Executive control of information and recommendations. Recommendations discussed and then usually accepted	17	2 (iv), 4 (i), 4 (ii), 4 (iii), 5 (ii), 5 (iii)
(iii) Decisions		
6. Decision making (strategic and operational) on the basis of formal papers and the political context. Understanding and 'grip' at board level. Boards operating by consensus	33	1 (i), 1 (ii), 1 (iii), 3 (i), 4 (i), 5 (i), 5 (ii), 5 (iii)
7. Board succession planning	2	2 (ii)

8. Board responsibility for the definition and delivery of social purpose. Accountability and legitimacy including moral accountability	16	1 (i), 1 (iii), 3 (i), 5 (i)
9. Leadership	5	3(i)
(iv) The SMT as a Sector Norm		
10. SMT, whose membership is decided by the CEO, acting as a cohesive group, and executive input to the board. Individual SMT / board member interaction.	29	3 (ii), 5 (ii), 5 (iii)
11. Operation of the SMT and its membership and its relationship to the rest of the management team	10	3 (ii), 4 (i), 4 (ii), 4 (iii), 5 (iii)
12. Chief executive acting in the dual (and potentially conflicting) roles of board member and leader of the SMT	4	5 (iii)
6.3.3 Challenge, Oversight and Assurance		
1. Challenge and oversight (actual and potential). Challenge by committees. Review of overall performance by the remuneration committee. Forgiving attitude by non-executives. Passive monitoring. Accepting a lower level of performance through charitableness.	38	1(i), 4 (ii), 5 (ii)
2. Executive resistance – valid resistance to board challenge and 'invalid' and acquiescence	10	4 (ii), 5 (ii), 5 (iii)
3. Non-executive support for the executive	7	2 (iii), 3 (i), 4 (i)
4. Chair as the dominant board member: board support / challenge to the chair	2	3 (i), 4 (ii)
5. Auditors and other sources of assurance to the board	16	4 (iii)
6. Skills, knowledge and Roles of the non-executive director: including bringing the out-of-sector 'independent' viewpoint. Including 'cross fertilisation' from different nonprofit sectors	8	1 (ii), 1 (iv), 2 (v), 4 (ii)
7. Ensuring board member / executive competency and commitment. Ensuring executive directors act as full board members, when they are	3	2 (iv), 3 (i), 3 (ii), 5 (iii)
6.3.4 Relationships		
1. Ingroups and outgroups, (both within and external to the organisation) interpersonal interactions, board cohesion and human factors. Board as a supportive community. Non-executives act as a less prepared / cohesive group than the SMT. However SMT is not necessary a fully cohesive group – depending on personalities.	32	1 (iii), 2 (v), 4 (i)
2. Respect expected for board members and the board	2	2 (iii), 2 (iv)
3. The relationships between the Chief executive and executive directors and board members. Including the chief executive protecting own staff.	17	2 (iv), 3 (ii), 4 (i), 4 (ii), 5 (ii), 5 (iii)
4. Trust	15	1 (i), 1 (ii), 2. (iv), 5 (ii)
5. Relationship between the board and the CEO including the SMT	21	5 (ii), 5 (iii)

6. (Executive) credibility and integrity	21	2 (iii), 2 (iv)
7. Personal friendships	2	2 (iii), 4 (i)
8. (Recruitment): Entry into and socialisation in the nonprofit sector organisation. Includes both executive and non-executives.	20	1 (iv), 2 (v)
9. Executive involvement and engagement with the board members and at board and committee meetings	3	1 (ii), 5 (i), 5 (iii)
10. Stakeholders and stakeholder relationships	13	1 (i), 1 (iv), 2 (i), 2 (iii)
6.3.5 Motivations		
1. Motivations of the chair and non-executive directors including: moral duty, personal interest eg help own children, self-satisfaction, self-esteem, career advancement and making a difference	33	2 (i)
2. Power and self-interest motivations and power structures (eg non-executive chairing committees). Chief executive power and influence	25	2 (iii), 4 (i), 5 (i), 5 (ii), 5 (iii)
3. Motivations of the executive, including the sense of moral duty	16	2 (i), 2 (ii), 4 (i), 4 (ii)
4. Board and board member identification (with the organisation and/or the sector)	8	1 (iv), 4 (ii)
5. Motivations of the executive, including the sense of moral duty	16	2 (i), 2 (ii), 4 (ii)
6. Empathy	1	2 (i), 2 (ii)

Table 3 Categories

Table 3 summarises the concepts which support each category; and shows the number of open codes supporting each concept and category; and therefore, represents the 'inverse' of Table 2.

		Concepts					
	Categories	**Environment**	**Board Structures & Processes**	**Challenge, Oversight & Assurance**	**Relationships**	**Motivations**	**Total**
1	**Political, regulatory, and ethical environments**						
1 (i)	The regulatory and political environments	171	49	38	28		286
1 (ii)	Values and culture of the nonprofit sector	96	33	8	18		195
1 (iii)	Social purpose of the organisation	76	49		32		157
I (iv)	Identification with the client not the 'owner' or regulator	75		8	20	8	111
1 (v)	Nonprofit sector collective bodies				13		13
2	**The individual director**						
2 (i)	Motivations of the individual to become a board member				13	66	79
2 (ii)	Motivations for the board to recruit an individual non-executive as a member	30	2			33	65
2 (iii)	Personal credibility and integrity			7	38	25	70
2 (iv)	Prestige, ritual, formality and respect		49	3	53		105
2 (v)	Socialisation	25		8	54		
3	**Nonprofit board structures**						
3 (i)	The formally appointed Board	3	88	12			103
3 (ii)	The SMT.		64	3	17		84
4	**Actions of the Board**						
4 (i)	Social groups and the conduct of business	3	131	7	51	41	234
4 (ii)	Challenge	23	53	58	17	40	191
4 (iii)	The SMT and the *de facto* dual board	13	30			16	59
5	**Power and influence**						
5 (i)	Power of the political and regularity environment	78	49		3	25	155
5 (ii)	Power of, and within, the board		118	48	53	25	244
5 (iii)	The SMT and the *de facto* dual board		93	13	41	25	172
Total		568	808	235	407	305	2,323

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